GENERAL ELECTRIC CAPITAL CORP
Form S-3
May 17, 2004

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**As filed with the Securities and Exchange Commission on May 17, 2004**

**Registration No. 333-[ ]**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form S-3

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

# GE Dealer Floorplan Master Note Trust

*(Issuer of the Notes)*

# Distribution Financial Services Floorplan Master Trust

*(Issuer of the Note Trust Certificate)*

| | | | |
|---|---|---|---|
| **CDF Financing, L.L.C.<br>(Transferor to Distribution Financial Services Floorplan Master Trust)**<br>*(Exact name of registrant as specified in its charter)* | | **CDF Funding, Inc.<br>(Transferor to GE Dealer Floorplan Master Note Trust)**<br>*(Exact name of registrant as specified in its charter)* | |
| **Delaware**<br>*(State of Incorporation)* | **88-0355652**<br>*(I.R.S. Employer Identification No.)* | **Delaware**<br>*(State of Incorporation)* | **20-1060484**<br>*(I.R.S. Employer Identification No.)* |
| **5595 Trillium Boulevard<br>Hoffman Estates, Illinois 60192<br>Tel: (847) 747-6800**<br>*(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)* | | **5595 Trillium Boulevard<br>Hoffman Estates, Illinois 60192<br>Tel: (847) 747-6800**<br>*(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)* | |

**Fred Robustelli, Esq.**

**GE Commercial Finance**
**1600 Summer Street, 4th Floor**
**Stamford, Connecticut 06927**
**(203) 357-4004**
*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

***Copies to:***

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|---|---|
| **Marc Klyman, Esq.<br>Mayer, Brown, Rowe & Maw LLP<br>190 South LaSalle Street<br>Chicago, Illinois 60603<br>(312) 782-0600** | **Walt Bay, Esq.<br>GE Commercial Distribution Finance Corporation<br>5595 Trillium Boulevard<br>Hoffman Estates, Illinois 60192<br>Tel: (847) 747-6800** |

**Approximate date of commencement of proposed sale to the public:** From time to time after this Registration Statement becomes effective as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ____________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ____________

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered | Proposed Maximum Offering Price Per Unit(1) | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee |
|---|---|---|---|---|
| Asset Backed Notes | $1,000,000 | 100% | $1,000,000 | $126.70 |
| Note Trust Certificate(2) | $1,000,000 | | | |

(1) Estimated solely for the purpose of calculating the registration fee.

(2) No additional consideration will be paid by the purchasers of the Asset Backed Notes for the Note Trust Certificate, which is pledged as security for the Asset Backed Notes and issued by Distribution Financial Services Floorplan Master Trust.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.**

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**INTRODUCTORY NOTE**

This registration statement includes:

a representative form of prospectus supplement to the base prospectus relating to the offering by GE Dealer Floorplan Master Note Trust of a series of asset-backed notes; and

a base prospectus relating to asset-backed notes of GE Dealer Floorplan Master Note Trust.

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**SUBJECT TO COMPLETION, DATED , 2004**

**Prospectus Supplement to Prospectus dated , 2004**

# GE Dealer Floorplan Master Note Trust

**Issuer**

**CDF Funding, Inc.**
**Transferor**

**General Electric Capital Corporation**
**Master Servicer**

## Series 2004- Asset Backed Notes

| | Class A Notes | Class B Notes | Class C Notes |
|---|---|---|---|
| Principal amount | $ | $ | $ |
| Interest rate | [One-month LIBOR plus] [ ]% per year | [One-month LIBOR plus] [ ]% per year | [One-month LIBOR plus] [ ]% per year |
| Interest payment dates | monthly on the 15th, beginning , 200 | monthly on the 15th, beginning , 200 | monthly on the 15th, beginning , 200 |
| Expected principal payment date | 200 | 200 | 200 |
| Final maturity date | 200 | 200 | 200 |
| Price to public | $ (or %) | $ (or %) | $ (or %) |
| Underwriting discount | $ (or %) | $ (or %) | $ (or %) |
| Proceeds to issuer | $ (or %) | $ (or %) | $ (or %) |

The notes will be paid from the issuer s assets consisting primarily of direct and indirect interests in floorplan receivables, accounts receivable and asset based lending receivables in a portfolio of revolving accounts owned by GE Commercial Distribution Finance Corporation, Transamerica Commercial Finance Corporation and other permitted originators from time to time.

We expect that your series of notes will be issued in book-entry form on or about , 200 .

**You should consider carefully the risk factors beginning on page S-[ ] in this prospectus supplement and page [ ] in the prospectus.**

The notes are obligations of GE Dealer Floorplan Master Note Trust only and are not obligations of CDF Funding, Inc., CDF Financing, L.L.C., Distribution Financial Services Floorplan Master Trust, GE Commercial Distribution Finance Corporation, Transamerica Commercial Finance Corporation, General Electric Capital Corporation, General Electric Capital Services, Inc. or any other person or entity.

This prospectus supplement may be used to offer and sell the notes only if accompanied by the prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved these notes or determined that this prospectus supplement or the prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

*Underwriters of the Class A Notes*

*Underwriters of the Class B Notes*
*Underwriters of the Class C Notes*
*, 2004*

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## IMPORTANT NOTICE ABOUT INFORMATION PRESENTED IN THIS

## PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

We (CDF Funding, Inc.) provide information to you about the notes in two separate documents: (a) the accompanying prospectus, which provides general information, some of which may not apply to your series of notes, and (b) this prospectus supplement, which describes the specific terms of your series of notes.

Whenever the information in this prospectus supplement is more specific than the information in the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information provided in this prospectus supplement and the accompanying prospectus, including the information incorporated by reference. We have not authorized anyone to provide you with different information. We are not offering the notes in any state where the offer is not permitted.

We include cross references in this prospectus supplement and the accompanying prospectus to captions in these materials where you can find further related discussions. The following Table of Contents and the Table of Contents in the accompanying prospectus provide the pages on which these captions are located.

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**SUMMARY OF TERMS**

| | |
|---|---|
| *Issuer:* | GE Dealer Floorplan Master Note Trust |
| *Transferor:* | CDF Funding, Inc. |
| *Master Servicer:* | General Electric Capital Corporation |
| *Originators:* | GE Commercial Distribution Finance Corporation ( CDF ), Transamerica Commercial Finance Corporation ( TCFC ), or other originators from time to time |
| *Indenture Trustee:* | Wilmington Trust Company |
| *Owner Trustee:* | The Bank of New York (Delaware) |
| *Expected Closing Date:* | , 2004 |
| *Commencement of Controlled Accumulation Period (subject to adjustment):* | , 200 |
| *Expected Principal Payment Date:* | , 200 |
| *Final Maturity Date:* | , 200 |
| *Clearance and Settlement:* | DTC/ Clearstream/ Euroclear |
| *Minimum Denominations:* | $1,000 |
| *Servicing Fee Rate:* | [ ]% per year |
| *Initial Collateral Amount:* | [ ] |
| *First Interest Payment Date:* | [ ] |
| *CUSIP:* | [ ] |
| *Required Reserve Account Percentage:* | [ ]% |
| *Primary Assets of the Issuer:* | Direct and indirect interests in floorplan receivables, accounts receivable and asset based lending receivables that arise under certain revolving accounts owned by the Originators. |
| *Offered Notes:* | The Class A, Class B and Class C notes are offered by this prospectus supplement and the accompanying prospectus. |

**SERIES 2004-**

| Class | Amount | % of Initial Collateral Amount |
|---|---|---|
| Class A notes | $ | |
| Class B notes | | |

| | | |
|---|---|---|
| Class C notes | | |
| Initial excess collateral amount | | |
| Initial collateral amount | $ | 100% |

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**OFFERED NOTES**

| | Class A | Class B | Class C |
|---|---|---|---|
| *Principal Amount:* | $ | $ | $ |
| *Anticipated Ratings:(1)*<br>*(Moody s/ S&P/ Fitch)* | | | |
| *Credit Enhancement:* | | | |
| *Interest Rate:* | | | |
| *Interest Accrual Method:* | | | |
| *Interest Payment Dates:* | | | |

| | |
|---|---|
| *[Interest Rate Index Reset Date:]* | |
| *ERISA eligibility:* | Yes, subject to considerations described under *ERISA Considerations* in the accompanying prospectus. |
| *Debt for United States Federal Income Tax Purposes:* | Yes, subject to considerations described under *U.S. Federal Income Tax Consequences* in the accompanying prospectus. |

(1) It is a condition to issuance that one of these ratings be obtained for each class of notes and that the portion of the note trust certificate that secures the notes be rated investment grade.

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## STRUCTURAL SUMMARY

This summary is a simplified presentation of certain structural components of Series 2004-     (your series). It does not contain all of the information that you need to consider in making your investment decision. You should carefully read this entire document and the accompanying prospectus before you purchase any notes.

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|---|---|
| **The Issuer** | The notes will be issued by GE Dealer Floorplan Master Note Trust, a Delaware statutory trust, under an indenture supplement to an indenture, each between the issuer and the indenture trustee.<br><br>The indenture trustee is Wilmington Trust Company. |
| **The Originators** | As of the closing date for your series, the Originators will be CDF and TCFC. TCFC was acquired by GE Capital in January 2004. From time to time after the closing date for your series, other entities that are affiliated with an Originator (including joint ventures to which an Originator is a party) may become Originators. |
| **Collateral for the Notes** | The notes are secured by the direct and indirect interests of the issuer in floorplan receivables, accounts receivable and asset based lending receivables that arise under certain of the accounts of the Originators. |

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The issuer will have a direct interest in receivables that the Originators transfer to us, and that we transfer to the issuer. The issuer will have an indirect interest in receivables pursuant to a note trust certificate that Distribution Financial Services Floorplan Master Trust will issue to us, and we will transfer to the issuer. The note trust certificate represents a beneficial ownership interest in a pool of the receivables that are owned by Distribution Financial Services Floorplan Master Trust. We may refer to Distribution Financial Services Floorplan Master Trust as the underlying trust. We may refer to the receivables in which the note trust certificate represents a beneficial ownership interest as the underlying trust receivables.

In the future, we expect the underlying trust to end, at which time the receivables remaining in the underlying trust will be transferred by the underlying trust to [CDF Financing, L.L.C., by CDF Financing, L.L.C. to us and by us to the issuer]. Thereafter, CDF will transfer receivables to us, and we will transfer those receivables to the issuer. References to the transferred receivables in this prospectus supplement and the prospectus include receivables in the underlying trust as well as any receivables that we transfer directly to the issuer.

**Other Claims on the Underlying Trust Receivables**

The underlying trust has issued series, and may in the future issue additional series, in the underlying trust receivables. Collections on the underlying trust receivables, as well as defaulted receivables, will be allocated among the issuer and any other series issued by the underlying trust from time to time. The allocations will be based on the respective interests of each series in the underlying trust receivables. For further information on the respective interests of each holder of a beneficial interest in the underlying trust receivables, see *Annex II: Other Series Issued by Distribution Financial Services Floorplan Master Trust.* The issuer s percentage interest in the principal receivables that are underlying trust receivables is referred to as the note trust ownership percentage and is calculated as described in the *Glossary of Terms For Prospectus* in the accompanying prospectus. Neither you nor any other noteholder will have the right to consent to the issuance by the underlying trust of future beneficial interests in the underlying trust receivables.

**Other Series of Notes**

Your series is the [ ] series of notes issued by the issuer. The issuer may issue other series of notes from time to time in the future. A summary of the outstanding series of notes is in *Annex I: Other Securities Issued and Outstanding* included at the end of this prospectus supplement. Neither you nor any other noteholder will have the right to consent to the issuance of future series of notes.

**Equity Amount**

The equity amount means the excess, if any, of the total amount of principal receivables held by the issuer directly or through the note trust certificate, or any participation interests held by the issuer, plus any balance in the excess funding account, over the aggregate outstanding principal amount of all of the issuer s notes.

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To provide support for your notes, we are required to maintain a minimum equity amount in the issuer equal to the excess collateral amount for your notes. The excess collateral amount provides credit enhancement by absorbing losses on the receivables allocated to your series to the extent not covered by non-principal collections available to your series.

The equity amount at any time may exceed the excess collateral amount for your series and any excess collateral amounts required to be maintained for other series of notes. We refer to this excess amount, if any, as the Free Equity Amount.

The excess collateral amount for your series, and a portion of the Free Equity Amount, if any, also enhance the likelihood of timely payment of principal on your notes through cash flow subordination because of two features of your series.

The first feature is that the numerator for your series allocation percentage for principal collections includes the excess collateral amount. This results in the share of principal collections corresponding to the excess collateral amount being available for principal payments on the notes before any such collections are applied to reduce the excess collateral amount. For more detail regarding your series allocation percentage, see *Description of Series Provisions Allocation Percentages* in this prospectus supplement.

The second feature is that the numerator for your series allocation percentage for principal collections does not reduce as principal payments are made to your series or collections are accumulated to repay your notes. Since the collateral amount for your series does reduce as a result of principal payments and principal accumulation, effectively a portion of your principal allocation comes from principal collections corresponding to the Free Equity Amount.

**Allocations of Collections and Losses** Your notes represent the right to receive principal and interest, which is secured in part by the right to payments from a portion of the collections on the transferred receivables. The master servicer, on behalf of the issuer, will allocate to the collateral amount for your series a portion of defaulted receivables.

The portion of collections and defaulted receivables allocated to the collateral amount for your series will be based mainly upon the ratio of the collateral amount for your series to the aggregate amount of principal receivables securing the notes. The way this ratio is calculated will vary during each of three periods that will or may apply to your notes:

The *revolving period*, which will begin on the closing date and end when either of the other two periods begins.

The *controlled accumulation period*, which is scheduled to begin the date specified under *Summary of Terms Commencement of Controlled Accumulation Period (subject to adjustment)* in this prospectus supplement. The controlled accumulation period may begin earlier or later, and end when the notes have been paid in full. However, if an early amortiza-

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tion event occurs before the controlled accumulation period begins, there will be no controlled accumulation period and an early amortization period will begin. If an early amortization event occurs during the controlled accumulation period, the controlled accumulation period will end, and an early amortization period will begin.

The *early amortization period*, which will only occur if one or more adverse events, known as early amortization events, occurs.

For most purposes, the collateral amount used in determining these ratios will be reset no less frequently than at the end of each month. However, for allocations of principal collections during the controlled accumulation period or the early amortization period, the collateral amount as of the end of the revolving period will be used.

For a description of the collateral amount applicable to your series, see *Description of Series Provisions Collateral Amount* in this prospectus supplement. For a description of the allocation percentage applicable to your series, see *Description of Series Provisions Allocation Percentages* in this prospectus supplement.

**Application of Non-Principal Collections**

We use the term non-principal collections to refer to (i) collections of interest and non-principal charges on receivables, (ii) recoveries, (iii) [the product of] principal payments on receivables [and the discount factor] and (iv) net investment earnings on funds in the reserve account, the excess funding account and the principal account. [Non-principal collections include, to the extent allocable to the note trust certificate, collections of interest and non-principal charges on underlying trust receivables, recoveries on underlying trust receivables, net investment earnings on certain deposit accounts of the underlying trust, and the product of principal payments on underlying trust receivables and a discount factor applicable to underlying trust receivables.] Your series share of non-principal collections each month will be applied in the following order of priority:

to pay, *pro rata*, the accrued and unpaid fees and other amounts owed to the indenture trustee up to a maximum amount of $[ ] for each [month], accrued and unpaid fees and other amounts owed to the trustee for the underlying trust up to a maximum amount of $[ ] for each [month], accrued and unpaid fees and other amounts owed to the owner trustee up to a maximum amount of $[ ] for each [month], and the accrued and unpaid fees and other amounts owed to the administrator for the issuer up to a maximum amount of $[ ] for each [month];

to pay the servicing fee for your series for the prior Monthly Period and any overdue servicing fee (to the extent not previously paid) [and to reimburse the master servicer for any servicer advance and any accrued and unpaid interest thereon];

to pay, *pro rata*, interest on the Class A notes, including any overdue interest and additional interest on the overdue interest, to the extent permitted by applicable law;

to pay, *pro rata*, interest on the Class B notes, including any overdue interest and additional interest on the overdue interest, to the extent permitted by applicable law;

to pay, *pro rata*, interest on the Class C notes, including any overdue interest and additional interest on the overdue interest, to the extent permitted by applicable law;

to deposit into the principal account, during the controlled accumulation period or the early amortization period, an amount (treated as a portion of Available Principal Collections) equal to the Aggregate Investor Default Amount for the Monthly Period;

to deposit into the principal account, during the controlled accumulation period or the early amortization period, an amount (treated as a portion of Available Principal Collections) equal to the sum of the aggregate amount of investor charge-offs and the amount of reallocated principal collections which have not been previously reimbursed;

to deposit into the reserve account an amount equal to the amounts required to be deposited in the reserve account;

to pay to the persons listed in the first subparagraph above on a pari passu basis any amounts owed to such persons and not paid pursuant to the first subparagraph above;

if the early amortization period has not occurred and is not continuing, the balance, if any, will constitute a portion of excess non-principal collections and will be applied in accordance with the indenture; and

if the early amortization period has occurred and is continuing, to make principal payments on the Class A notes, the Class B notes and the Class C notes, in that order of priority.

Similar amounts that are initially allocated to another series will be used to cover any shortfalls to the extent those amounts are not needed by those other series and the excess funds are allocated to your series as described in *Description of the Notes Shared Excess Non-Principal Collections* in the accompanying prospectus.

**Application of Principal Collections**

Principal Receivables

A principal receivable with respect to an account includes all amounts (other than such amounts which represent non-principal receivables [and discount portions]) billed to the related dealer, manufacturer or distributor. [With respect to the underlying trust, the calculation of a principal receivable excludes an amount equal to the product of a discount factor and the outstanding principal balance of that receivable.]

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| Non-Principal Receivables | A non-principal receivable with respect to an account means all amounts billed to the related dealer, manufacturer or distributor in respect of interest and all other non-principal charges. |
| Principal Collections | Principal collections are collections under the receivables other than non-principal collections. |
| Revolving Period | During the revolving period, no principal will be paid to, or accumulated for, your series. |
| Controlled Accumulation Period | During the controlled accumulation period, your series share of principal collections will be deposited in a principal account, up to a specified deposit amount on each payment date. Unless an early amortization event occurs, amounts on deposit in that account will be paid on the expected principal payment date first to the Class A noteholders, then to the Class B noteholders and then to the Class C noteholders, in each case until the specified class of notes is paid in full or the amounts available are depleted. |
| Early Amortization Period | An early amortization period for your series will start if an early amortization event occurs. The early amortization events for your series are described under *Description of Series Provisions Early Amortization Events* in this prospectus supplement. During the early amortization period, your series share of principal collections will be paid monthly first to the Class A noteholders, then to the Class B noteholders and then to the Class C noteholders, in each case until the specified class of notes is paid in full. |
| Reallocation of Principal Collections | During any of the above periods, principal collections allocated to your series may be reallocated, if necessary, to make required payments of interest on the Class A notes, the Class B notes and the Class C notes and monthly servicing fee payments (and payments of other fees, as set forth under *Description of Series Provisions Reallocation of Principal Collections* ) not made from your series share of non-principal collections and other amounts treated as non-principal collections and excess non-principal collections available from other series that share with your series. |
| Extra Principal Collections | At all times, collections of principal receivables allocated to your series that are not required to be held or applied for payments on your series will be: first, made available to other series, second, deposited in the excess funding account if needed to maintain the Minimum Free Equity Amount for the issuer and third, distributed to us or our assigns. |
| **[Credit Enhancement** | Credit enhancement for your series includes [ ]. |
| | Credit enhancement for your series is for your series benefit only, and you are not entitled to the benefits of credit enhancement available to other series.] |
| [Subordination | Credit enhancement for the Class A notes includes the subordination of the Class B notes, the Class C notes and the excess collateral amount. |

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Credit enhancement for the Class B notes includes the subordination of the Class C notes and the excess collateral amount.

Credit enhancement for the Class C notes includes the subordination of the excess collateral amount.

Subordination serves as credit enhancement in the following way. The more subordinated, or junior, classes of notes will not, to the extent specified herein, receive payment of interest or principal until required payments have been made to the more senior classes. As a result, subordinated classes will absorb any shortfalls in collections or deterioration in the collateral for the notes prior to senior classes. The excess collateral amount for your series is subordinated to all of the classes of notes, so it will absorb shortfalls and collateral deterioration before any class of notes.]

[Reserve Account

The issuer will establish and maintain a segregated account to serve as the reserve account. [On each payment date, the issuer will apply non-principal collections available to your series to increase the amount on deposit in the reserve account to the extent the amount on deposit in the reserve account is less than the required reserve account amount.]]

[The required reserve account amount for any payment date will be equal to (a) the result of (i) the percentage specified under *Summary of Terms Required Reserve Account Percentage* in this prospectus supplement, multiplied by (ii) the outstanding principal balance of the notes of your series or (b) any other amount designated by us. We may only designate a lesser amount if each rating agency confirms that the designation will not impair its rating of any class of the notes of your series and we certify to the indenture trustee that, based on the facts known to the certifying officer at the time, in our reasonable belief, the designation will not cause an early amortization event to occur for your series.]

[On or before each payment date, the issuer will withdraw from the reserve account and deposit in the collection account an amount equal to the lesser of:

(1) the amount then on deposit in the reserve account with respect to that payment date; and

(2) the amount of the shortfall in non-principal collections available to make payments described in clauses (1) through (5) under *Description of Series Provisions Application of Non-Principal Collections* in this prospectus supplement.]

**Early Amortization Events**

The issuer will begin to repay the principal of the notes before the expected principal payment date if an early amortization event for your series occurs. For a description of the early amortization event for your series, see *Descriptions of Series Provisions Early Amortization Events* in this prospectus supplement.

**Events of Default**

The notes of your series are subject to events of default described under *The Indenture Events of Default; Rights upon Event of Default* in the accompanying prospectus.

In the case of an event of default involving bankruptcy, insolvency or similar events relating to the issuer, the principal amount of the notes of your series automatically will become immediately due and payable. If any other event of default occurs and continues with respect to the notes of your series, the indenture trustee or holders of not less than a majority of the then-outstanding principal balance of the notes of your series may declare the principal amount of the notes of your series to be immediately due and payable. These declarations may be rescinded by holders of not less than a majority of the then-outstanding principal balance of the notes of your series if the related event of default has been cured, subject to the conditions described under *The Indenture Events of Default; Rights upon Event of Default* in the accompanying prospectus.

After an event of default and the acceleration of the notes of your series, funds allocated to the notes of your series and on deposit in the collection account, the excess funding account and the other trust accounts will be applied to pay principal of and interest on the notes of your series to the extent permitted by law. In the event that your notes have been accelerated, you will receive payments only on monthly payment dates, from principal collections and non-principal collections allocated to the notes of your series, until the earlier of the date those notes are paid in full or the final maturity date of those notes.

If the notes of your series are accelerated or the issuer fails to pay the principal of the notes of your series on the final maturity date, subject to the conditions described in the prospectus under *The Indenture Events of Default; Rights upon Event of Default*, the indenture trustee may, if legally permitted, cause the issuer to sell principal receivables in an amount equal to the collateral amount for your series and the related non-principal receivables.

**Optional Redemption**

We have the option to exercise a clean-up call in respect of your series when the outstanding principal amount for your series has been reduced to 10% or less of the initial principal amount, but only if the purchase price paid to the issuer is sufficient to pay in full all amounts owing to the noteholders of your series. The purchase price for your series will equal the collateral amount for your series plus the applicable allocation percentage of non-principal receivables. See *Description of the Notes Final Payment of Principal* in the accompanying prospectus.

**Tax Status**

Subject to considerations described under *U.S. Federal Income Tax Consequences* in the accompanying prospectus, Mayer, Brown, Rowe & Maw LLP, as tax counsel to the issuer, is of the opinion that under existing law the Class A, Class B and Class C notes will be characterized as debt for federal income tax purposes and that neither the issuer nor the underlying trust will be classified as an association or constitute a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. By your acceptance of a note of your series, you will agree to treat your notes as debt for federal, state and local income and franchise tax purposes. See *U.S. Federal Income Tax Consequences* in the

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| | accompanying prospectus for additional information concerning the application of federal income tax laws. |
| **ERISA Considerations** | Subject to considerations described under *ERISA Considerations* in the accompanying prospectus, the Class A, Class B and Class C notes are eligible for purchase by persons investing assets of employee benefit plans or individual retirement accounts. Each purchaser will be deemed to represent that its purchase and holding of the notes will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code which is not covered by a prohibited transaction exemption. If you are contemplating purchasing notes of your series on behalf of or with plan assets of any plan or account, we suggest that you consult with counsel regarding whether the purchase or holding of notes could give rise to a prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code. |
| **Risk Factors** | There are material risks associated with an investment in the notes of your series, and you should consider the matters set forth under *Risk Factors* beginning on page S-[ ] of this prospectus supplement and on page [ ] of the accompanying prospectus. |
| **Ratings** | It is a condition to the issuance of your notes that one of the ratings set forth for each class of notes of your series under the caption *Summary of Terms* above be obtained. Any rating assigned to the notes by a credit rating agency will reflect the rating agency s assessment solely of the likelihood that noteholders will receive the payments of interest and principal required to be made under the terms of the series and will be based primarily on the value of the transferred receivables and the credit enhancement provided. The rating is not a recommendation to purchase, hold or sell any notes. The rating does not constitute a comment as to the marketability of any notes, any market price or suitability for a particular investor. Any rating can be changed or withdrawn by a rating agency at any time. |
| **[Exchange Listing** | We will apply to list the notes of your series on the Luxembourg Stock Exchange. We cannot guarantee that the application for the listing will be accepted.] |
| **Address and Telephone Information** | The address for CDF Funding, Inc. is 5595 Trillium Boulevard, Hoffman Estates, Illinois 60192. CDF Funding, Inc. s phone number is (847) 747-6800.<br><br>The address for CDF Financing, L.L.C. is 5595 Trillium Boulevard, Hoffman Estates, Illinois 60192. CDF Financing, L.L.C. s phone number is (847) 747-6800.<br><br>The address for the issuer is (c/o General Electric Capital Corporation as administrator) 1600 Summer Street, 4th Floor, Stamford, Connecticut 06927. The issuer s phone number is (c/o General Electric Capital Corporation as administrator) (203) 357-4000.<br><br>The address for the underlying trust is (c/o CDF Financing, L.L.C.) 5595 Trillium Boulevard, Hoffman Estates, Illinois 60192. The underlying trust s phone number is (c/o CDF Financing, L.L.C.) (847) 747-6800. |

This prospectus supplement uses defined terms. You can find a glossary of terms under the caption *Glossary of Terms for Prospectus Supplement* beginning on page S-[ ] in this prospectus supplement and under the caption *Glossary of Terms for Prospectus* beginning on page [ ] in the accompanying prospectus.

## RISK FACTORS

In addition to the other information contained in this prospectus supplement and the prospectus, you should consider the following risk factors and the *Risk Factors* set forth in the prospectus in deciding whether to purchase the notes. The disclosures below and the *Risk Factors* set forth in the accompanying prospectus do not purport to be complete; to fully understand and evaluate those disclosures, you also should read the rest of this prospectus supplement and the accompanying prospectus.

### You May Be Unable to Resell Your Notes

There is currently no secondary market for the notes and we cannot assure you that one will develop. Thus you may not be able to resell your notes at all, or may be able to do so only at a substantial discount. The underwriters may assist in resales of the notes, but they are not required to do so. We do not intend to apply for listing of the notes on any securities exchange or for the inclusion of the notes on any automated quotation system. A trading market for the notes may not develop. If a trading market does develop, it might not continue or it might not be sufficiently liquid to allow you to resell any of your notes.

### You May Be Adversely Affected if Your Notes are Repaid Faster or Slower Than You Expect

You may receive repayment of your notes earlier or later than expected.

If your notes are repaid faster than you expect, you may be unable to reinvest principal received on your notes at a yield that is equal to the yield on your notes. If you acquire notes at a premium, repayment of principal at a rate that is faster than the rate you anticipated will result in a lower than anticipated yield.

If your notes are repaid later than you expect, you will be unable to use the principal amount of your investment at the time that you expected, and you may miss opportunities to reinvest the money in other investments. Also, if you acquire your notes at a discount, the repayment of principal of your notes later than you anticipated will result in a lower than anticipated yield.

Numerous factors may result in your notes being repaid faster or slower than you expect; we cannot assure you that your notes will be repaid on any particular date. Additional discussion of these issues is set forth under *Maturity Considerations* in this prospectus supplement.

### Possible Delays and Reductions in Payments on Notes Due to Geographic Concentration

You may suffer delays and reductions in payments on your notes because of economic conditions in states where dealers, manufacturers or distributors are located.

As of [ ], according to their mailing addresses in the records of the master servicer: dealers, manufacturers or distributors owing underlying trust receivables representing, by principal balance, [ ]%, [ ]%, [ ]% and [ ]% of the receivables in the underlying trust, were located in [ ], [ ], [ ] and [ ], respectively; and dealers, manufacturers or distributors owing receivables that will be held directly by the issuer as of the closing date for your series representing, by principal balance, [ ]%, [ ]%, [ ]% and [ ]% of such receivables, were located in [ ], [ ], [ ] and [ ], respectively.

An economic downturn in one or more of the states where concentrations of dealers, manufacturers or distributors are located could adversely affect the performance of the issuer or the underlying trust as a whole, even if national economic conditions remain unchanged or improve, as dealers, manufacturers or distributors in such state or states experience the effects of such a downturn and face greater difficulty in making payments on the receivables.

Economic factors such as unemployment, interest rates and the rate of inflation may affect the rate of prepayment and defaults on the receivables and could delay and reduce payments to you.

**Possible Delays and Reductions in Payments on Notes Due to Limited Assets of the Issuer**

You may experience delays and reductions in payments on your notes because the issuer will not have any significant assets or sources of funds other than the note trust certificate and the receivables held by the issuer.

Your notes will be payable only from the assets of the issuer.

You must rely for repayment upon payments on the note trust certificate and the receivables held by the issuer and, if and to the extent available, amounts on deposit in the reserve account. However, amounts to be deposited in the reserve account are limited in amount. If the reserve account is exhausted, the issuer will depend solely on current collections on the note trust certificate and the receivables held by the issuer to make payments on your notes.

If losses or delinquencies occur with respect to the note trust certificate or receivables which are not covered by payments on other receivables or by the reserve account, you may experience delays and reductions in payments on your notes.

The notes do not represent an interest in or an obligation of, and are not insured or guaranteed by, the master servicer, any Originator, GE Capital, General Electric Capital Services, Inc., us, CDF Financing, L.L.C., the underlying trust or any other person or entity. You will have no recourse to the master servicer, any Originator, GE Capital, General Electric Capital Services, Inc., us, CDF Financing, L.L.C., the underlying trust or any other person or entity in the event that proceeds of the assets of the issuer are insufficient or otherwise unavailable to make payments on your notes.

**Possible Delays and Reductions in Payments on Notes Due to Basis Risk**

You could suffer delays or reductions in payments on your notes because of the way the underlying trust receivables and the receivables held by the issuer bear or do not bear interest and the way in which interest is calculated on your notes.

The receivables generally bear interest at rates announced by particular banks plus a margin. [The master servicer, on behalf of] the issuer, may reduce the interest rates applicable to any of the receivables if, in the reasonable judgment of the [master servicer], no early amortization event will result from that reduction. Some receivables do not bear interest for a specified period after their origination.

The interest rate on your notes is calculated as LIBOR plus a margin. The interest rate on your notes from time to time may exceed the rate of interest (to the extent applicable) borne by the receivables.

A reduction in interest rates on the receivables will reduce the amount of non-principal collections available to fund payment of interest on your notes and to fund other items set forth under *Description of Series Provisions Application of Non-Principal Collections.*

**Possible Delays and Reductions In Payments on Notes Due to Limited Credit Enhancement**

Credit enhancement for the notes of your series will be provided by:

amounts in the reserve account, if any;

the subordination of the Class B notes and the Class C notes for the benefit of each class of notes of your series with an earlier alphabetical designation; and application of non-principal collections as described in priorities ([ ]) and ([ ]) under *Description of Series Provisions Application of Non-Principal Collections* in this prospectus supplement.

The amount of the credit enhancement is limited and may be reduced from time to time as described in this prospectus supplement. If the amount of credit enhancement is reduced to zero, you will likely experience delays and/or reductions in payments on your notes.

Credit enhancement for any other series will not be available to your series.

**Possible Delays and Reductions in Payments on Class B Notes Due to Subordination of Class B Notes**

Payments on the Class B notes are subordinated to the Class A notes as described in this prospectus supplement. Accordingly, if you acquire a Class B note, you may suffer delays and/or reductions in payments on your notes even though payments are being made on the Class A notes.

**Possible Delays and Reductions in Payments on Class C Notes Due to Subordination of Class C Notes**

Payments on the Class C notes are subordinated to the Class A notes and the Class B notes as described in this prospectus supplement. Accordingly, if you acquire a Class C note, you may suffer delays and/or reductions in payments on your notes even though payments are being made on the Class A notes and the Class B notes.

**Deposits of Funds in the Excess Funding Account Will Reduce the Amount of Non-Principal Collections that are Available to the Issuer**

Pursuant to the indenture, the issuer will establish a deposit account that we call the excess funding account. Any funds deposited in the excess funding account will likely earn a rate of return lower than the yield on a comparable amount of receivables. Accordingly, any deposit of funds in the excess funding account will reduce the amount of non-principal collections available to the issuer and could result in a delay and/or reduction in payments to you.

**[Ability to Change Discount Factor May Result in Delays or Reductions in Payments on Notes**

You may be adversely affected because the discount factor applicable to receivables held by the issuer may be changed without your consent.

For purposes of calculating non-principal collections, this transaction treats some principal payments on the receivables as if they were interest or other non-principal charges relating to the receivables.

The product of principal payments on each receivable times a percentage that we call the discount factor will be deemed to be non-principal collections.

As of the date of this prospectus supplement, the discount factor applicable to the underlying trust receivables is [ ]%, and as of the date of this prospectus supplement, we expect that the initial discount factor applicable to receivables held by the issuer will be [ ]%. The discount factor may be adjusted upwards or downwards, without your consent, but may in no event exceed 1%.

Any increase in the discount factor will result in a higher amount of non-principal collections and a lower amount of principal collections than would otherwise occur. Conversely, any decrease in the discount factor would result in a lower amount of non-principal collections and a higher amount of principal collections than would otherwise occur.

Changes in the amount of principal collections or non-principal collections could result in a delay and reduction in payments to you.]

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**Ratings are Not Recommendations**

Any rating of your notes by a rating agency indicates the rating agency s view regarding the likelihood of the ultimate payment of principal and the timely payment of interest, at the applicable interest rate, on your notes.

Among the things a rating will not indicate are:

- the likelihood that principal will be paid on a scheduled date;
- the likelihood that an early amortization event will occur;
- whether or not the discussion under *U.S. Federal Income Tax Consequences* in the prospectus is adequate or correct, or the likelihood that a United States withholding tax will be imposed on non-U.S. noteholders;
- whether or not the discussion under *ERISA Considerations* in the prospectus is adequate or correct, or whether a prohibited transaction will occur;
- the marketability of your notes;
- the market price of your notes; or
- whether your notes are an appropriate investment for you.

A rating is not a recommendation to buy, sell, or hold your notes. A rating may be lowered or withdrawn at any time. You should evaluate each rating independently of any other rating.

At least one rating agency will be requested to rate the Class A notes; it is a condition to the issuance of the Class A notes that they be rated in the highest long-term rating category by at least one rating agency. At least one rating agency will be requested to rate the Class B notes; it is a condition to the issuance of the Class B notes that they be rated in one of the three highest long-term rating categories by at least one rating agency. At least one rating agency will be requested to rate the Class C notes; it is a condition to the issuance of the Class C notes that they be rated in one of the four highest long-term rating categories by at least one rating agency. A rating agency other than those requested could assign a rating to your notes, and its rating could be lower than any rating assigned by a rating agency chosen by us.

The reduction or withdrawal of any rating on your notes could make it more difficult for you to resell your notes, and, if you are able to resell your notes, could reduce the price that you would receive in that sale.

## THE ACCOUNTS

**General**

The receivables arise under revolving credit arrangements between:

- a dealer, manufacturer or distributor of products; and
- an Originator.

For additional discussion of the origination of the receivables, see *The Financing Business* in the prospectus.

We use the term Originator to refer to any entity, other than CDF Financing, L.L.C., that is a party as a seller to a receivables sale agreement with us as buyer. As of the closing date for your series, the only Originators will be CDF and TCFC. From time to time, one or more affiliate of an Originator may be designated as Originators, if the rating agencies rating the outstanding series of notes confirm that designating such an affiliate as an Originator will not result in a downgrade or reduction of the ratings of the notes. Subject to the foregoing, a joint venture to which an Originator is a party may be designated as an Originator.

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CDF and each other Originator refers to its revolving credit arrangements with dealers, manufacturers or distributors as accounts . Each Originator may have multiple accounts with a single dealer, manufacturer or distributor. Accordingly, the numbers of accounts listed in the tables set forth below do not equal the number of applicable dealers, manufacturers or distributors.

The accounts are not transferred by CDF to CDF Financing, L.L.C. or the underlying trust, or by any Originator to us or the issuer. The accounts relating to the underlying trust are identified in a computer file or list delivered from time to time to the trustee of the underlying trust in accordance with the pooling and servicing agreement for the underlying trust. The accounts relating to the receivables transferred by an Originator to us, and by us to the issuer, will be identified in a computer file or list delivered from time to time by an Originator to us, and by us to the issuer.

Accounts may be added or removed from time to time. In addition, an Originator may stop making advances to a dealer, manufacturer or distributor from time to time under an account that relates to the issuer, and instead make advances to a dealer, manufacturer or distributor under an account that does not relate to the issuer. See *Description of the Notes Addition of Accounts* and *Description of the Notes Removal of Accounts* in the prospectus.

As of [ ], $[ ] million of receivables were in the total U.S. portfolio of CDF [of which $[ ] million of receivables were included in the underlying trust as of that date]. All references in the tables set forth below to receivables balances refer to the amounts shown in the records of CDF as the outstanding principal amount of the applicable receivables. All references to the total U.S. portfolio of CDF include all accounts receivable, asset based lending receivables and floorplan receivables serviced by CDF whether or not those receivables are in the underlying trust, including receivables serviced for one or more third parties by CDF but not owned by CDF. The tables set forth below under the heading *Description of the Total U.S. Portfolio of CDF* contain information with respect to the receivables in the total U.S. portfolio of CDF as of [ ]. For a further description of CDF, see *Important Parties GE Commercial Distribution Finance Corporation* in the prospectus.

As of [ ], $[ ] of receivables were in the total U.S. portfolio of TCFC. All references to the total U.S. portfolio of TCFC include all [accounts receivable, asset based lending receivables,] and floorplan receivables serviced by TCFC, including receivables serviced for one or more third parties by TCFC but not owned by TCFC. None of the receivables of TCFC are included in the underlying trust. Some of the receivables that will be transferred by TCFC to us and by us to the issuer were originated by TCFC prior to the time that GE Capital acquired TCFC. For a further description of TCFC, see *Important Parties Transamerica Commercial Finance Corporation* in the prospectus.

As of [ ], $[ ] of receivables were in the initial portfolio of the issuer. All references to the initial portfolio of the issuer include all accounts receivable, asset based lending receivables, and floorplan receivables that we expect will be held by the issuer as of the closing date for your series. For a further description of the issuer, see *Important Parties The Issuer* in the prospectus.

The sum in any column in the tables set forth below may not equal the indicated total due to rounding.

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**Description of the Total U.S. Portfolio of CDF**

The following table sets forth the composition of the total U.S. portfolio of CDF, as of [ ], by business line. Due to the variability and uncertainty with respect to the rates at which receivables are created, paid or otherwise reduced, the characteristics set forth below may vary significantly as of any other date of determination.

**Composition of Receivables in the Total U.S. Portfolio of CDF by Business Line**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | (Dollars in Millions) | | | |
| **Business Line** | | | | |
| Floorplan Receivables | $ | % | | % |
| Accounts Receivable | | % | | % |
| Asset Based Lending Receivables | | % | | % |
| Total | $ | 100.0% | | 100.0% |

The following tables set forth the composition of the receivables in the total U.S. portfolio of CDF as of [ ] by account balance, product type and geographic distribution of such receivables. Due to the variability and uncertainty with respect to the rates at which receivables are created, paid or otherwise reduced, the characteristics set forth below may vary significantly as of any other date of determination.

**Composition of Receivables in the Total U.S. Portfolio of CDF by Account Balance**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | (Dollars in Millions) | | | |
| **Account Balance Range** | | | | |
| $1 to $999,999.99 | $ | % | | % |
| $1,000,000 to $2,499,999.99 | | % | | % |
| $2,500,000 to $4,999,999.99 | | % | | % |
| $5,000,000 to $9,999,999.99 | | % | | % |
| Over $10,000,000.00 | | % | | % |
| Total | $ | 100.0% | | 100.0% |

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**Composition of Receivables in the Total U.S. Portfolio of CDF by Product Type**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | | (Dollars in Millions) | | |
| **Product Type** | | | | |
| Recreational Vehicles | $ | % | | % |
| Boats and Boat Motors | | % | | % |
| Motorcycles | | % | | % |
| Accounts Receivable | | % | | % |
| Computers and Related Equipment | | % | | % |
| Industrial and Agricultural Equipment | | % | | % |
| Snowmobiles | | % | | % |
| Manufactured Housing | | % | | % |
| Keyboard and Other Musical Instruments | | % | | % |
| Consumer Electronics and Appliances | | % | | % |
| Lawn and Garden Equipment | | % | | % |
| Other | | % | | % |
| Total | $ | 100.0% | | 100.0% |

The accounts receivable category in the preceding table includes asset based lending receivables of $[ ] million. The Other category in the preceding table includes, among other product types, horse trailers, and heating, ventilating, and air conditioning equipment.

**Geographic Distribution of Receivables in the Total U.S. Portfolio of CDF**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | | (Dollars in Millions) | | |
| **State** | | | | |
| Total | $ | 100.0% | | 100.0% |

The percentage of receivables balances represented by receivables in each state not specifically listed in the preceding table is less than [ ]%. The information as to states in the preceding table is based on the mailing addresses of the applicable dealers, manufacturers or distributors in the records of the master servicer.

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**Description of the Total U.S. Portfolio of TCFC**

The following table sets forth the composition of the total U.S. portfolio of TCFC, as of [ ], by business line. Due to the variability and uncertainty with respect to the rates at which receivables are created, paid or otherwise reduced, the characteristics set forth below may vary significantly as of any other date of determination.

**Composition of Receivables in the Total U.S. Portfolio of TCFC by Business Line**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | | (Dollars in Millions) | | |
| **Business Line** | | | | |
| Floorplan Receivables | $ | % | | % |
| Accounts Receivable | | % | | % |
| Asset Based Lending Receivables | | % | | % |
| Total | $ | 100.0% | | 100.0% |

The following tables set forth the composition of the receivables in the total U.S. portfolio of TCFC as of [ ] by account balance, product type and geographic distribution of such receivables. Due to the variability and uncertainty with respect to the rates at which receivables are created, paid or otherwise reduced, the characteristics set forth below may vary significantly as of any other date of determination.

**Composition of Receivables in the Total U.S. Portfolio of TCFC by Account Balance**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | | (Dollars in Millions) | | |
| **Account Balance Range** | | | | |
| $1 to $999,999.99 | $ | % | | % |
| $1,000,000 to $2,499,999.99 | | % | | % |
| $2,500,000 to $4,999,999.99 | | % | | % |
| $5,000,000 to $9,999,999.99 | | % | | % |
| Over $10,000,000.00 | | % | | % |
| Total | $ | 100.0% | | 100.0% |

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**Composition of Receivables in the Total U.S. Portfolio of TCFC by Product Type**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | | (Dollars in Millions) | | |
| **Product Type** | | | | |
| Recreational Vehicles | $ | % | | % |
| Boats and Boat Motors | | % | | % |
| Motorcycles | | % | | % |
| Accounts Receivable | | % | | % |
| Computers and Related Equipment | | % | | % |
| Industrial and Agricultural Equipment | | % | | % |
| Power sports Equipment | | % | | % |
| Manufactured Housing | | % | | % |
| Keyboard and Other Musical Instruments | | % | | % |
| Consumer Electronics and Appliances | | % | | % |
| Lawn and Garden Equipment | | % | | % |
| Other | | % | | % |
| Total | $ | 100.0% | | 100.0% |

The accounts receivable category in the preceding table includes asset based lending receivables of $[ ] million. The Other category in the preceding table includes, among other product types, sewing, and heating, ventilating, and air conditioning equipment.

**Geographic Distribution of Receivables in the Total U.S. Portfolio of TCFC**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | | (Dollars in Millions) | | |
| **State** | | | | |
| Total | $ | 100.0% | | 100.0% |

The percentage of receivables balances represented by receivables in each state not specifically listed in the preceding table is less than [ ]%. The information as to states in the preceding table is based on the mailing addresses of the applicable dealers, manufacturers or distributors in the records of the master servicer.

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**Description of Initial Portfolio of the Issuer**

The following table sets forth the composition of the initial portfolio of the issuer, as of [ ], by business line. Due to the variability and uncertainty with respect to the rates at which receivables are created, paid or otherwise reduced, the characteristics set forth below may vary significantly as of any other date of determination.

**Composition of Receivables in the Initial Portfolio of the Issuer by Business Line**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | (Dollars in Millions) | | | |
| **Business Line** | | | | |
| Floorplan Receivables | $ | % | | % |
| Accounts Receivable | | % | | % |
| Asset Based Lending Receivables | | % | | % |
| Total | $ | 100.0% | | 100.0% |

The following tables set forth the composition of the receivables in the initial portfolio of the issuer as of [ ] by account balance, product type and geographic distribution of such receivables. Due to the variability and uncertainty with respect to the rates at which receivables are created, paid or otherwise reduced, the characteristics set forth below may vary significantly as of any other date of determination.

**Composition of Receivables in the Initial Portfolio of the Issuer by Account Balance**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | (Dollars in Millions) | | | |
| **Account Balance Range** | | | | |
| $1 to $999,999.99 | $ | % | | % |
| $1,000,000 to $2,499,999.99 | | % | | % |
| $2,500,000 to $4,999,999.99 | | % | | % |
| $5,000,000 to $9,999,999.99 | | % | | % |
| Over $10,000,000.00 | | % | | % |
| Total | $ | 100.0% | | 100.0% |

**Composition of Receivables in the Initial Portfolio of the Issuer by Product Type**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | (Dollars in Millions) | | | |
| **Product Type** | | | | |
| Recreational Vehicles | $ | % | | % |
| Boats and Boat Motors | | % | | % |
| Motorcycles | | % | | % |
| Accounts Receivable | | % | | % |
| Computers and Related Equipment | | % | | % |
| Industrial and Agricultural Equipment | | % | | % |
| [Power sports Equipment] [Snowmobiles] | | % | | % |
| Manufactured Housing | | % | | % |
| Keyboard and Other Musical Instruments | | % | | % |
| Consumer Electronics and Appliances | | % | | % |
| Lawn and Garden Equipment | | % | | % |
| Other | | % | | % |
| Total | $ | 100.0% | | 100.0% |

The accounts receivable category in the preceding table includes asset based lending receivables of $[ ] million. The Other category in the preceding table includes, among other product types, sewing, and heating, ventilating, and air conditioning equipment.

**Geographic Distribution of Receivables in the Initial Portfolio of the Issuer**

**As of [ ]**

| | Receivables Balance | Percentage of Receivables Balances | Number of Accounts | Percentage of Number of Accounts |
|---|---|---|---|---|
| | (Dollars in Millions) | | | |
| **State** | | | | |
| Total | $ | 100.0% | | 100.0% |

The percentage of receivables balances represented by receivables in each state not specifically listed in the preceding table is less than [ ]%. The information as to states in the preceding table is based on the mailing addresses of the applicable dealers, manufacturers or distributors in the records of the master servicer.

### Yield Information

The receivables bear interest in their accrual periods at rates generally equal to a rate referred to in the related financing agreement plus a margin. The rate in the financing agreements relating to the receivables usually refers to the prime rate announced from time to time by a bank or banks referred to therein. Some receivables do not bear interest for a specified period after their origination.

For [ ], the receivables in the total U.S. portfolio of CDF had a yield of [ ]% per annum and the receivables in the total U.S. portfolio of TCFC had a yield of [ ]% per annum. As of [ ], the receivables in the initial portfolio of the issuer had a yield of [ ]% per annum.

The yield on the receivables in the underlying trust will be affected by the interest rates borne by such receivables, the discount factor for the underlying trust and the rate at which the balances of such receivables are paid. The yield on receivables held by the issuer will be affected by the interest rates borne by such receivables, [the discount factor applicable to the issuer] and the rate at which balances of such receivables are paid.

### Major Customers; Major Manufacturers [and Distributors]

At [ ] no one dealer accounted for more than [ ]% of the aggregate balance of the receivables in the total U.S. portfolio of CDF, for more than [ ]% of the aggregate balance of the receivables in the total U.S. portfolio of TCFC, or for more than [ ]% of the aggregate balance of the receivables in the initial portfolio of the issuer. At [ ] no one manufacturer [or distributor] was obligated under repurchase agreements relating to receivables aggregating more than [ ]% of the aggregate balance of the receivables total U.S. portfolio of CDF, for more than [ ]% of the aggregate balance of the receivables in the total U.S. portfolio of TCFC, or for more than [ ]% of the aggregate balance of the receivables in the initial portfolio of the issuer. Such repurchase agreements are used as collateral disposal mechanisms in which risk is spread across dealers. No prediction can be made as to what percentage of the receivables in the future, whether in the issuer or in the underlying trust, may be obligations of a single dealer or be related to a single manufacturer or distributor under its repurchase agreements. See *The Financing Business Repurchase Agreements* in the prospectus.

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**Delinquency Experience**

The following tables set forth the delinquency experience as of the dates indicated for the total U.S. portfolio of CDF, the total U.S. portfolio of TCFC and the initial portfolio of the issuer. Because the accounts from which the receivables in the underlying trust or receivables held by the issuer will be generated constitute only a portion of the total U.S. portfolio of CDF and only a portion of the total U.S. portfolio of TCFC, the actual delinquency experience with respect to the accounts in the underlying trust and the accounts relating to the issuer may be different than the experience set forth in the table below. We cannot assure you that the delinquency experience for any receivables in the future will be similar to the experience shown below.

**Delinquency Experience for the Total U.S. Portfolio of CDF**

| | As of [ ] | As of [ ] | As of [ ] | As of [ ] | As of [ ] | As of [ ] |
|---|---|---|---|---|---|---|
| | | | (Dollars in Millions) | | | |
| Receivables Balance | $ | $ | $ | $ | $ | $ |
| Sold and unpaid/ Insufficient funds past due 31 days or more | | | | | | |
| Scheduled Payment Plan past due 31 days or more | | | | | | |
| Total | | | | | | |
| Sold and unpaid/ Insufficient funds past due 31 days or more/ Receivables Balance | % | % | % | % | % | % |
| Scheduled Payment Plan past due 31 days or more/ Receivables Balance | % | % | % | % | % | % |
| Total Sold and unpaid/ Insufficient funds and Scheduled Payment Plan past due 31 days or more/ Receivables Balance | % | % | % | % | % | % |

**Delinquency Experience for the Total U.S. Portfolio of TCFC**

| | As of [ ] | As of [ ] | As of [ ] | As of [ ] | As of [ ] | As of [ ] |
|---|---|---|---|---|---|---|
| | | | (Dollars in Millions) | | | |
| Receivables Balance | $ | $ | $ | $ | $ | $ |
| Sold out of trust/ Insufficient funds past due 31 days or more | | | | | | |
| Scheduled Payment Plan past due 31 days or more | | | | | | |
| Total | | | | | | |
| Sold out of trust/ Insufficient funds past due 31 days or more/ Receivables Balance | % | % | % | % | % | % |
| Scheduled Payment Plan past due 31 days or more/ Receivables Balance | % | % | % | % | % | % |
| Total Sold out of trust/ Insufficient funds and Scheduled Payment Plan past due 31 days or more/ Receivables Balance | % | % | % | % | % | % |

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**Delinquency Experience for the Initial Portfolio of the Issuer as of [ ]**

**(Dollars in Millions)**

| |
|---|
| Receivables Balance |
| Sold and unpaid/ sold out of trust/ Insufficient funds past due 31 days or more |
| Scheduled Payment Plan past due 31 days or more |
| Total |
| Sold and unpaid/ sold out of trust/ Insufficient funds past due 31 days or more/ Receivables Balance |
| Scheduled Payment Plan past due 31 days or more/ Receivables Balance |
| Total Sold and unpaid/ sold out of trust/ Insufficient funds and Scheduled Payment Plan past due 31 days or more/ Receivables Balance |

A receivable was coded sold and unpaid or sold out of trust if CDF or TCFC, as the case may be, became aware that a dealer has sold a product financed by CDF or TCFC, as the case may be, without making a corresponding payment to CDF or TCFC, if required, as the case may be. A receivable was coded as insufficient funds if a dealer [, manufacturer of distributor] made a payment to CDF or TCFC, as the case may be, and the applicable bank refused to honor such payment.

**Loss Experience**

The following table sets forth the average receivables balance and loss experience for each of the periods shown with respect to the total U.S. portfolio of CDF, the total U.S. portfolio of TCFC [and the portfolio of the issuer]. Because the accounts in the underlying trust and accounts relating to the issuer will be only a portion of the total U.S. portfolio of CDF and the total U.S. portfolio of TCFC, actual loss experience with respect to the accounts in the underlying trust and accounts relating to the issuer may be different than the experience set forth in the table below. We cannot assure you that the loss experience for any receivables in the future will be similar to the historical experience set forth below. The historical experience set forth below includes the effect of the financial obligations of manufacturers [and distributors] in respect of repossessed products as described in the prospectus under *The Financing Business Repurchase Agreements.* If manufacturers [or distributors] do not perform those obligations in the future, the loss experience in respect of the receivables would be adversely affected.

**Loss Experience for the Total U.S. Portfolio of CDF**

| | **[ ] Months Ended [ ]** | **Year Ended as of [ ]** | **Year Ended as of [ ]** |
|---|---|---|---|
| | | **(Dollars in Millions)** | |
| Average Receivables Balance | | | |
| Gross Losses | | | |
| Net Losses | | | |
| Net Losses/ Liquidations | | | |
| Net Losses/ Average Receivables Balance | | | |

| | **Year Ended as of [ ]** | **Year Ended as of [ ]** | **Year Ended as of [ ]** |
|---|---|---|---|
| Average Receivables Balance Gross Losses | | | |
| Net Losses | | | |
| Net Losses/ Liquidations | | | |
| Net Losses/ Average Receivables Balance | | | |

The average receivables balance referred to in the preceding table is the average weekly receivables balance for the twelve months ended on the last day of the period, except that the average receivables balance for the [ ] months ended [ ] is the average weekly receivables balance for the [ ] months ended on [ ]. Net losses in any period referred to in the preceding table are gross losses less recoveries for such period. The percentages indicated for the [ ] months ended [ ] in the preceding table are not annualized.

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**Loss Experience for the Total U.S. Portfolio of TCFC**

| | [ ] Months Ended [ ] | Year Ended as of [ ] | Year Ended as of [ ] |
|---|---|---|---|
| | | (Dollars in Millions) | |
| Average Receivables Balance | | | |
| Gross Losses | | | |
| Net Losses | | | |
| Net Losses/ Liquidations | | | |
| Net Losses/ Average Receivables Balance | | | |

| | Year Ended as of [ ] | Year Ended as of [ ] | Year Ended as of [ ] |
|---|---|---|---|
| Average Receivables Balance | | | |
| Gross Losses | | | |
| Net Losses | | | |
| Net Losses/ Liquidations | | | |
| Net Losses/ Average Receivables Balance | | | |

The average receivables balance referred to in the preceding table is the average daily receivables balance for the twelve months ended on the last day of the period, except that the average receivables balance for the [ ] months ended [ ] is the average daily receivables balance for the [ ] months ended on [ ]. Net losses in any period referred to in the preceding table are gross losses less recoveries for such period. The percentages indicated for the [ ] months ended [ ] in the preceding table are not annualized.

**[Loss Experience for the [Initial] Portfolio of the Issuer]**

| | [ ] Months Ended [ ] | Year Ended as of [ ] | Year Ended as of [ ] |
|---|---|---|---|
| | | (Dollars in Millions) | |
| Average Receivables Balance | | | |
| Gross Losses | | | |
| Net Losses | | | |
| Net Losses/ Liquidations | | | |
| Net Losses/ Average Receivables Balance | | | |

| | Year Ended as of [ ] | Year Ended as of [ ] | Year Ended as of [ ] |
|---|---|---|---|
| Average Receivables Balance | | | |
| Gross Losses | | | |
| Net Losses | | | |
| Net Losses/ Liquidations | | | |
| Net Losses/ Average Receivables Balance | | | |

[The average receivables balance referred to in the preceding table is the average daily receivables balance for the twelve months ended on the last day of the period, except that the average receivables balance for the [ ] months ended [ ] is the average daily receivables balance for the [ ] months ended on [ ]. Net losses in any period referred to in the preceding table are gross losses less recoveries for such period. The percentages indicated for the [ ] months ended [ ] in the preceding table are not annualized.]

**Aging Experience**

The following tables provide the age distribution of floorplan receivables in the total U.S. portfolio of CDF, the total U.S. portfolio of TCFC and the initial portfolio of the issuer, by receivables balances and as a percentage of the total U.S. portfolio of CDF, the total U.S. portfolio of TCFC or the initial portfolio of the issuer, as the case may be, outstanding at the dates indicated. [The data in the following tables for [ ] and [ ] excludes accounts receivable and asset based lending receivables.] For purposes of the following table, aging commences on the date of the applicable invoice provided by the applicable manufacturer to CDF or TCFC, as applicable, and ends on the date that the receivable has been paid in full. Because the floorplan receivables in the issuer and in the underlying trust will only be a portion of the entire U.S. portfolio of CDF and only a portion of the total U.S. portfolio of TCFC, actual age distribution of floorplan receivables in the issuer and in the underlying trust may be different than the distribution shown below.

**Age Distribution of Floorplan Receivables in the Total U.S. Portfolio of CDF(1)**

**Receivables Balances**

| | | **As of December 31** | | | | |
|---|---|---|---|---|---|---|
| **Days** | **As of [ ],** | **2003** | **2002** | **2001** | **2000** | **1999** |
| | | | **(Dollars in Millions)** | | | |
| 1-30 | | | | | | |
| 31-60 | | | | | | |
| 61-90 | | | | | | |
| 91-120 | | | | | | |
| 121-180 | | | | | | |
| 181-270 | | | | | | |
| Over 270 | | | | | | |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**Percentage of Receivables Balances**

| | | **As of December 31** | | | | |
|---|---|---|---|---|---|---|
| **Days** | **As of [ ]** | **2003** | **2002** | **2001** | **2000** | **1999** |
| 1-30 | | | | | | |
| 31-60   | | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | 372,493 | - | | |
| | Deferred tax liabilities | | 18 | 265,164 | 132,388 |
| **Total non-current liabilities** | | | | **822,887** | **300,021** |
| | Bank overdraft | | 21 | 82,565 | 2,125 |
| | Loans and borrowings | | 25 | 587,325 | 619,555 |
| | Income taxes payable | | 12 | 170,860 | 443,194 |
| | Trade and other payables | | 29 | 846,706 | 759,019 |
| | Due to related parties | | 34 | 11,014 | 17,978 |
| | Deferred income | | 27 | 333,220 | 324,815 |
| | Provisions | | 28 | 57,681 | 71,134 |
| | Liabilities classified as held for sale | | 7 | 6,471 | - |
| **Total current liabilities** | | | | **2,095,842** | **2,237,820** |
| **Total liabilities** | | | | **2,918,729** | **2,537,841** |
| **Total equity and liabilities** | | | | **9,570,262** | **8,469,046** |

The notes on page 6 to 85 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 2008**

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

| | | Nine months ended | | Three months ended | |
|---|---|---|---|---|---|
| | | 30 September | | 30 September | |
| | **Note** | **2008** | **2007** | **2008** | **2007** |
| Revenue | 9 | 5,385,361 | 4,521,043 | 2,055,923 | 1,722,766 |
| Direct cost of revenue | | (2,607,614) | (2,254,272) | (935,499) | (799,851) |
| **Gross profit** | | **2,777,747** | **2,266,771** | **1,120,424** | **922,915** |
| Other income | | 8,744 | 10,153 | 6,346 | 1,801 |
| Selling and marketing expenses | | (1,025,535) | (810,166) | (366,778) | (296,853) |
| Administrative expenses | | (233,509) | (163,726) | (87,901) | (56,867) |
| Other expenses | | (25,192) | (3,541) | (2,707) | 558 |
| **Results from operating activities** | | **1,502,255** | **1,299,491** | **669,384** | **571,554** |
| Finance income | 11 | 394,799 | 213,516 | 83,650 | 83,472 |
| Finance expense | 11 | (47,966) | (445,394) | (16,728) | (230,719) |
| **Net finance income / (expense)** | | **346,833** | **(231,878)** | **66,922** | **(147,247)** |
| Share of profit of equity accounted investees | 15 | 74,382 | 43,346 | 25,139 | 17,196 |
| **Profit before income tax** | | **1,923,470** | **1,110,959** | **761,445** | **441,503** |
| Income tax expense | 12 | (405,504) | (197,220) | (160,294) | (50,186) |
| **Profit for the period** | | **1,517,966** | **913,739** | **601,151** | **391,317** |
| **Attributable to:** | | | | | |
| Equity holders of Turkcell Iletisim Hizmetleri Anonim Sirketi and its subsidiaries | | 1,517,027 | 946,957 | 603,791 | 401,188 |
| Minority interest | | 939 | (33,218) | (2,640) | (9,871) |
| **Profit for the period** | | **1,517,966** | **913,739** | **601,151** | **391,317** |
| Basic and diluted earnings per share (in full US Dollars) | 23 | 0.689558 | 0.430435 | 0.274451 | 0.182358 |

The notes on page 6 to 85 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 2008**

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

| | **Nine months ended** | | **Three months ended** | |
|---|---|---|---|---|
| | **30 September 2008** | **2007** | **30 September 2008** | **2007** |
| Foreign currency translation differences | (313,573) | 641,370 | (57,282) | 356,829 |
| Net change in fair value of available-for-sale securities | (7,196) | 1,737 | 2,318 | (463) |
| **Income and expense recognized directly in equity** | **(320,769)** | **643,107** | **(54,964)** | **356,366** |
| **Profit for the period** | 1,517,966 | 913,739 | 601,151 | 391,317 |
| **Total recognized income for the period** | **1,197,197** | **1,556,846** | **546,187** | **747,683** |
| **Attributable to:** | | | | |
| Equity holders of Turkcell Iletisim Hizmetleri Anonim Sirketi | 1,192,145 | 1,600,684 | 548,334 | 769,299 |
| Minority interest | 5,052 | (43,838) | (2,147) | (21,616) |
| **Total recognized income for the period** | **1,197,197** | **1,556,846** | **546,187** | **747,683** |

The notes on page 6 to 85 are an integral part of these consolidated interim financial statements.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

**For the nine months ended 30 September 2008**

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

| | **Nine months ended 30 September** | |
|---|---|---|
| | **2008** | **2007** |
| **Cash flows from operating activities** | | |
| **Profit for the period** | **1,517,966** | **913,739** |
| **Adjustments for:** | | |
| Depreciation | 347,020 | 395,764 |
| Amortization of intangibles | 190,052 | 193,034 |
| Net finance income | (368,314) | (228,582) |
| Income tax expense | 405,504 | 197,220 |
| Share of profit of equity accounted investees | (112,405) | (76,407) |
| Loss/(gain) on sale of property, plant and equipment | 2,068 | (90) |
| Translation reserve | (38,249) | 96,980 |
| Amortization of transaction costs of borrowings | - | 4,729 |
| Deferred income | 25,804 | 32,481 |
| | **1,969,446** | **1,986,032** |
| Change in trade receivables | (203,008) | (159,553) |
| Change in due from related parties | (9,551) | 39,479 |
| Change in inventories | 105 | (1,715) |
| Change in prepaid expenses | (90,219) | (91,841) |
| Change in other current assets | (23,705) | 35,964 |
| Change in other non-current assets | (6,229) | (3,905) |
| Change in due to related parties | (5,675) | 897 |
| Change in trade and other payables | (58,852) | (3,890) |
| Change in other current liabilities | 185,243 | 149,923 |
| Change in other non-current liabilities | 4,322 | (7,545) |
| Change in employee benefits | 5,263 | 3,494 |
| Change in provisions | (9,209) | (790) |
| | **1,757,931** | **1,946,550** |
| Interest paid | (16,237) | (22,954) |
| Income tax paid | (673,107) | (337,767) |
| Dividend received | 10,184 | 12,951 |
| **Net cash from operating activities** | **1,078,771** | **1,598,780** |
| **Cash flows from investing activities** | | |
| Proceeds from sale of property plant and equipment | 6,356 | 3,361 |
| Proceeds from currency option contracts | 12,461 | 14,345 |
| Proceeds from sale of available-for-sale financial assets | 33,059 | 27,114 |
| Proceeds from settlement of held-to-maturity investments | - | 8,300 |
| Interest received | 304,265 | 192,789 |
| Dividends received | - | 18,131 |
| Acquisition of property, plant and equipment | (450,104) | (383,622) |
| Acquisition of intangibles | (139,195) | (116,968) |
| Acquisition of subsidiary, net of cash acquired | (299,975) | - |
| Payment of currency option contracts premium | (3,921) | (7,809) |
| Acquisition of available-for-sale financial assets | (58,386) | (119) |
| **Net cash used in investing activities** | **(595,440)** | **(244,478)** |
| **Cash flows from financing activities** | | |

| | | |
|---|---|---|
| Payment of transaction costs | - | (205) |
| Dividends paid | (556,973) | (457,625) |
| Proceeds from issuance of loans and borrowings | 541,500 | 469,673 |
| Repayment of borrowings | (470,405) | (427,682) |
| Change in minority interest | 87,856 | 123,721 |
| Reimbursement of borrowing costs | - | 11,983 |
| **Net cash used in financing activities** | **(398,022)** | **(280,135)** |
| | | |
| **Effects of foreign exchange rate fluctuations on balance sheet items** | **(163,059)** | **224,620** |
| | | |
| **Net increase in cash and cash equivalents** | **(77,750)** | **1,298,787** |
| **Cash and cash equivalents at 1 January** | **3,093,175** | **1,598,356** |
| Effect of exchange rate fluctuations on cash and cash equivalents | 71,713 | (382,615) |
| **Cash and cash equivalents at 30 September** | **3,087,138** | **2,514,528** |

The notes on page 6 to 85 are an integral part of these consolidated interim financial statements.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the nine and three months ended 30 September 2008**

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

**Notes to the consolidated interim financial statements**

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the nine and three months ended 30 September 2008**

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

## 1. Reporting entity

Turkcell Iletisim Hizmetleri Anonim Sirketi (the Company ) was incorporated in Turkey on 5 October 1993 and commenced its operations in 1994. The address of the Company s registered office is Turkcell Plaza, Mesrutiyet caddesi No. 71, 34430 Tepebasi/Istanbul. 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 releases 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 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.

As at 30 September 2008, two significant founding shareholders, Sonera Holding BV and Cukurova Group, directly and indirectly, own approximately 37.1% and 13.8%, 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. On the basis of publicly available information, Alfa Group transferred control over 50% of its previously held shares to Nadash in January 2008.

The consolidated interim financial statements of the Company as at and for the nine and three months ended 30 September 2008 comprise the Company and its twenty two subsidiaries (together referred to as the Group ) and the Group s interest in one associate and one joint venture. The Company s and each of its subsidiaries , associate s and joint venture s interim financial statements are prepared as at and for the nine and three months ended 30 September 2008.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the nine and three months ended 30 September 2008**

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

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRSs ) as issued by the International Accounting Standards Board ( IASB ).

The Group s consolidated interim financial statements were approved by the Board of Directors on 5 November 2008.

### (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 as issued by the IASB. 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 and financial instruments classified as available-for-sale. The methods used to measure fair value are further discussed in note 4.

### (c) Functional and presentation currency

The consolidated interim financial statements are presented in US Dollars ( USD ), rounded to the nearest thousand. Moreover, all financial information expressed in New Turkish Lira ( TRY ), Euro ( EUR ) and Swedish Krona ( SEK ) have been rounded to the nearest thousand. The functional currency of the Company and its consolidated subsidiaries located in Turkey and Turkish Republic of Northern Cyprus is TRY. The functional currency of Euroasia Telecommunications Holding BV ( Euroasia ) and Financell BV ( Financell ) is USD. The functional currency of East Asian Consortium BV ( Eastasia ) is EUR. The functional currency of LLC Astelit ( Astelit ) is Ukrainian Hryvnia. The functional currency of Belarussian Telecommunications Network ( BeST ) is Belarussian Roubles ( BYR ).

### (d) Use of estimates and judgments

The preparation of interim financial statements in conformity with International Accounting Standards No:34 (IAS 34) *Interim Financial Reporting* requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 estimates are revised and in any future periods affected.

Information about estimates, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4, 8 and 33 and detailed analysis with respect to accounting estimates and critical judgements of bad debts, useful life or expected pattern of consumption of the future economic benefits embodied in depreciable assets, income taxes and revenue recognition are provided below:

**Key sources of estimation uncertainty**

In note 30, detailed analysis is provided for the foreign exchange exposure of the Company and risks in relation to foreign exchange movements.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the nine and three months ended 30 September 2008**

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

**2. Basis of preparation (continued)**

**(d) Use of estimates and judgments (continued)**

**Critical accounting judgments in applying the Company s accounting policies**

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

***Allowance for doubtful receivables***

The impairment losses in trade and other receivables are based on management s evaluation of the volume of the receivables outstanding, historical collection trends and general economic conditions. Should economic conditions, collection trends or any specific industry trend worsen compared to management estimates, allowance for doubtful receivables recognised in consolidated interim financial statements may not be sufficient to cover bad debt.

***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. The useful life of the License is based on duration of the license agreement.

The GSM licence that is held by BeST, newly acquired consolidated subsidiary, expires in 2015. According to the Share Purchase Agreement signed, the State Committee on Property of the Republic of Belarus committed to extend the term of the licence for an additional 13 years for an insignificant consideration. In the consolidated interim financial statements, amortization charge is recorded on the assumption that the licence will be extended.

***Commission fees***

Commission fees relate to services performed in relation to betting games where the Group acts as an agent in the transaction rather than as a principal. In the absence of specific guidance under IFRSs on distinguishing between an agent and a principal, management considered the following factors:

The Group does not take the responsibility for fulfilment of the games.
The Group does not collect the proceeds from the final customer and it does not bear the credit risk.
The Group earns a stated percentage of the total turnover.

***Revenue recognition***

In arrangements which include multiple elements, the Company considers the elements to be separate units of accounting in the arrangement. Deliverables are accounted separately where a market for each deliverable exists and if the recognition criterion is met individually. The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the nine and three months ended 30 September 2008**

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

**2. Basis of preparation (continued)**

**(d) Use of estimates and judgments (continued)**

**Critical accounting judgments in applying the Company s accounting policies**

***Income taxes***

The calculation of tax charge involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through formal legal process.

As part of the process of preparing the consolidated interim financial statements, the Group is required to estimate the income taxes in each of the jurisdictions and countries in which they operate. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue and reserves for tax and accounting purposes. The Company management assesses the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent the recovery is not considered probable the deferred asset is adjusted accordingly.

The recognition of deferred tax assets is based upon whether it is probable that future taxable profits will be available, against which the temporary differences can be utilized. Recognition, therefore, involves judgment regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognized.

**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 have been applied consistently by Group entities.

**(a) Basis of consolidation**

*(i) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 currently 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. The accounting policies of subsidiaries are changed as 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 that are under the control of the shareholder that controls the Group are excluded from the scope of International Financial Reporting Standards No. 3 ( IFRS 3 ) *Business Combinations* . The assets and liabilities acquired from entities under common control are recognised at the carrying amounts recognised previously in the Group s controlling shareholder s consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity.

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**3. Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

*(iii) Associates and jointly controlled entities (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities (equity accounted investees) are accounted for using the equity method and are initially recognised at cost. The Group s investment includes goodwill identified on acquisition, net of any accumulated impairment loss. The consolidated interim financial statements include the Group s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. The Group s equity accounted investees as at 30 September 2008 are Fintur Holdings BV ( Fintur ) and A-Tel Pazarlama ve Servis Hizmetleri AS ( A-Tel ).

*(iv) Transactions eliminated on consolidation*

Intragroup balances and transactions, and any unrealised 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 against the investment to the extent of the Group s interest in the investee. 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 Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation of foreign currency transactions are recognised in the income statement. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the 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, which are recognised directly in equity.

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**3. Significant accounting policies (continued)**

**(b) Foreign currency (continued)**

*(ii) Foreign operations*

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to USD at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences arising on retranslation are recognized directly in a separate component of equity. Since 1 January 2005, the Group s date of transition to IFRSs, 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 foreign currency translation reserve is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

*(iii) Translation from functional to presentation currency*

Items included in the financial statements of each entity 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 USD, which is the presentation currency of the Group. The Group uses USD as the presentation currency for the convenience of investor and analyst community.

*(iii) Translation from functional to presentation currency (continued)*

Assets and liabilities for each balance sheet presented (including comparatives) are translated to USD at exchange rates at the balance sheet date. Income and expenses for each income statement (including comparatives) are translated to USD at monthly average exchange rates.

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

*(iv) Net investment in foreign operations*

Foreign currency differences arising from the translation of the net investment in foreign operations are recognized in foreign currency 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. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

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.

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**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

*(i) Non-derivative financial instruments (continued)*

Accounting for finance income and expenses is discussed in note 3(n).

*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(i)(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.

*Financial assets at fair value through profit or loss*

An instrument is classified as financial asset 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 in accordance with the Group s risk management or investment strategy. 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.

*Put options*

Under the terms of certain agreements, the Group is committed to acquire the interests owned by minority shareholders in consolidated subsidiaries, if these minority interests wish to sell their share of interests.

As the Group has unconditional obligation to fulfil its liabilities under this agreements, International Accounting Standards No: 32 ( IAS 32 ) *Financial instruments: Disclosure and Presentation* , requires the value of such put option to be presented as a financial liability on the balance sheet for the present value of the estimated option redemption amount. Furthermore, the share of minority shareholders in the net asset of the company subject to the put option is reclassified from minority interest to financial liability in the consolidated interim balance sheet.

*Other*

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

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**3. Significant accounting policies (continued)**

**(c) Financial instruments (continued)**

*(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 profit or loss.

*(iii) Share capital*

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**(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 accumulated impairment losses (see note 3(h)(ii)).

Cost includes expenditure that is 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, if any. Borrowing costs related to the acquisition or constructions of qualifying assets are recognized in profit or loss as incurred or capitalized during the period.

When 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.

Gains/losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income or other expenses in profit or loss.

*(I) 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 part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced item is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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**3. Significant accounting policies (continued)**

**(d) Property, plant and equipment (continued)**

*(iii) Depreciation*

Depreciation is recognized in the profit or loss 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 unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Buildings | 25 50 years |
| Network infrastructure | 3 8 years |
| Equipment, fixtures and fittings | 4 5 years |
| Motor vehicles | 4 5 years |
| Central betting terminals | 1 year |
| Leasehold improvements | 5 years |

Depreciation methods, useful lives and residual values are reviewed at least annually unless there is a triggering event.

**(e) Intangible assets**

Intangible assets that are acquired by the Group which have finite useful lives are measured at cost adjusted for the effects of inflation during the hyperinflationary period lasted by 31 December 2005 less accumulated amortization (see below) and accumulated impairment losses (see note 3(h)(ii)).

*(i) Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset (that is purchased from independent third parties) to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred. Capitalized costs generally relate to the application of development stage; any other costs incurred during the pre and post-implementation stages, such as repair, maintenance or training, are expensed as incurred. Subsequent expenditures of the Company do not relate to research and development activities.

*iii) Amortization*

Amortization is recognized in the profit or loss 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. The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Computer software | 3 8 years |
| GSM and other telecommunications license | 3 25 years |

| | | |
|---|---|---|
| Transmission lines | 10 | years |
| Central betting system operating right | 10 | 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.

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**3. Significant accounting policies (continued)**

**(g) Inventories**

Inventories are measured at the lower of cost and net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less 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. As at 30 September 2008, inventories consist of simcards, scratch cards and handsets.

**(h) Impairment**

*(i) Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

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 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, other than 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.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the cash-generating unit ).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. 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.

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**3. Significant accounting policies (continued)**

**(h) Impairment (continued)**

*(ii) Non-financial assets (continued)*

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 amortization, if no impairment loss had been recognised.

**(i) Non-current assets held for sale**

Non-current assets (or disposal group comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assests (or components of a disposal group) are remeasured in accordance with the Group s accounting policies. Thereafter generally the assets (or disposal group) are remeasured at the lower of their carrying amount and fair value less cost to sell.

**(j) 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 full TRY 2,173 as at 30 September 2008 (equivalent to full $1,764 as at 30 September 2008) (31 December 2007: full TRY 2,030 (equivalent to full $1,648 as at 30 September 2008)) 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 Company and its subsidiaries in Turkey arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

*(ii) Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due.

The assets of the plan are held separately from the consolidated interim financial statements of the Group. The Company and other consolidated companies that initiated defined contribution retirement plan are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the companies with respect to the retirement plan is to make the specified contributions.

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**3. Significant accounting policies (continued)**

**(k) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation 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. The Company did not recognize any provision for onerous contracts as at 30 September 2008.

**(l) 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 income is recorded under current liabilities.

In connection with campaigns, both postpaid and prepaid services may be bundled with handset or other goods / services and these bundled services and products involve consideration in the form of fixed fee or a fixed fee coupled with continuing payment stream. Loyalty programs for both postpaid and prepaid services may be bundled with other services. Deliverables are accounted separately where a market for each deliverable exists and if the recognition criterion is met individually. Costs associated with each deliverable are recognized at the time of revenue recognized. The arrangement consideration is allocated to each deliverable in proportion to the fair value of the individual deliverables. Revenues allocated to handsets given in connection with campaigns are recognized under other revenues.

Commission fees mainly comprised of net takings earned to a maximum of 7% of gross takings, as a head agent of fixed odds betting games starting from 15 March 2007 and 4.3% commission recognized based on the para-mutual and fixed odds betting games operated on Central Betting System.

Prior to 15 March 2007, under the former head agency agreement, head agency commission fees were earned to a maximum of 12% of gross takings. In relation to the new contract signed with Spor Toto Teskilat Mudurlugu ( Spor Toto ) on 29 August 2008, commission rate applicable was decreased to 1.4% effective from March 2009. Commission revenues are recognized at the time all the services related with the games are fully rendered. Under the head agency agreement, Inteltek Internet Teknoloji Yatirim ve Danismanlik AS ( 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 upfront upon delivery to subscribers, net of returns, discounts and rebates. Simcard costs are also recognized upfront upon sale of the simcard to the subscriber.

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

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**3. Significant accounting policies (continued)**

**(m) 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 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.

**(n) Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for sale financial assets), late payment interest 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 and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are recognised in profit or loss or capitalized are accounted using the effective interest method.

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

**(o) 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.

**(p) Income tax**

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 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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**3. Significant accounting policies (continued)**

**(p) Income tax (continued)**

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.

**(q) 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 does not have any convertible notes or share options granted to employees.

**(r) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group s business and geographical segments. The Group s primary format for segment reporting is based on geographical segment and secondary segment reporting is based on business segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**(s) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective at 30 September 2008, and have not been applied in preparing these consolidated interim financial statements:

IFRS 8 *Operating Segments* introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the Group s 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group s Chief Operating Decision Maker in order to assess each segment s performance and to allocate resources to them. Currently, the Group presents segment information in respect of its business and geographical segments (see note 6). It is not expected to have any significant impact on the consolidated financial statements.

*Revised IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset. The revised IAS 23 will become mandatory for the Group s 2009 consolidated financial statements and will not constitute a change in accounting policy for the Group.

*IFRIC 13 Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group s 2009 consolidated financial statements, is not expected to have significant impact on the consolidated financial statements.

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**3. Significant accounting policies (continued)**

**(s) New standards and interpretations not yet adopted (continued)**

*Revised IAS 1 Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group s 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements.

*Revised IFRS 3 Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group s operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group s 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group s 2010 consolidated financial statements.

*Amended IAS 27 Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group s 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

*Amendment to IFRS 2 Share-based Payment Vesting Conditions and Cancellation*s clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group s 2009 consolidated financial statements, with retrospective application and are not expected to have any impact on the consolidated financial statements.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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

**3. Significant accounting policies (continued)**

**(s) New standards and interpretations not yet adopted (continued)**

*Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group s 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

The International Financial Reporting Interpretations Committee ( IFRIC ) issued on 3 July 2008 an interpretation *IFRIC 16 Hedges of a Net Investment in a Foreign Operation*. IFRIC 16 applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. It does not apply to other types of hedge accounting. The interpretation is effective for annual periods beginning on or after 1 October 2008 and is not expected to have any effect on the consolidated financial statements.

The IFRIC issued on 3 July 2008 an Interpretation, *IFRIC 15 Agreements for the Construction of Real Estate*. The Interpretation will standardize accounting practice across jurisdictions for the recognition of revenue among real estate developers for sales of units, such as apartments or houses before construction is complete. The Interpretation is effective for annual periods beginning or after 1 January 2009 and is not expected to have any effect on the consolidated financial statements.

*Eligible Hedged Items (amendment to IAS 39 Financial Instruments: Recognition and Measurement)* introduces application guidance to illustrate how the principles underlying hedge accounting should be applied in the designation of i) a one-sided risk in a hedged item and ii) inflation in a financial hedged item. The amendment is effective, with retrospective application, for annual periods beginning on or after 1 July 2009 and is not expected to have any effect on the consolidated financial statements.

*Amendment to IAS 39 Financial Instruments: Recognition and Measurement* Eligible Hedged Items clarifies the existing principles that determine whether specific risks and portions of cash flows are eligible for designation in a hedging relationship. The amendments are to be applied retrospectively for annual periods beginning on or after 1 July 2009, with earlier application permitted. The amendment is not expected to have any effect on the consolidated financial statements.

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**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. When 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 arm s 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 intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**(iii) 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 or over the counter market price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

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

The fair values of trade and other receivables and due from related parties are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(v) 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.

**(vi) 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.

**(vii) Put options**

The Group measures the value of the financial liability originating from put options granted to minorities as the present value of estimated option redemption amount. Present value of the estimated option redemption amount is based on the fair value of estimation for the company subject to the put option. In the consolidated interim financial statements as at 30 September 2008, the Group management used purchase price at the date of acquisition as a base to estimate fair value of the put option granted to minority holders.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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## 5. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

Credit risks
Liquidity risks
Market risk

This note presents information about the Group s exposure to each of the above risks, the Group s objectives, policies and processes for measuring and managing risk, and the Group s management of capital.

The Company management has overall responsibility for the establishment and oversight of the Group s risk management framework.

The Group s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group s activities.

The current global market turmoil, market confidence and liquidity issues have become key factors in the assessment of future performance of the companies in Turkey similar to the others across the Globe. The instant impact of the global turmoil across global financial markets came out to be a sharp increase in foreign currency exchange rates in Turkey. Consequently, the depreciation of TRY against USD and EUR was 21.5% and 9.0%, respectively as at 31 October 2008 when compared to the exchange rates as at 30 September 2008. Please refer to note 30 for additional information on the Group s exposure to this turmoil.

**Credit risk**

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group s receivables from customers and investment securities.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group may require collateral in respect of financial assets. Also, the Group may demand letters of guarantee from third parties related to certain projects or contracts. The Group may also demand certain pledges from counterparties if necessary in return for the credit support it gives related to certain financings.

In monitoring customer credit risk, customers are grouped according to whether they are an individual or legal entity, ageing profile, maturity and existence of previous financial difficulties. Trade receivables and accrued service income are mainly related to the Group s subscribers. The Group exposure to credit risk on trade receivables is influenced mainly by the individual payment characteristics of post-paid subscribers.

Investments are allowed only in liquid securities and mostly with counterparties that have a credit rating equal or better than the Group. Some of the collection banks have credit ratings that are lower than the Group s, or they may not be rated at all, however, policies are in place to review the paid-in capital and capital adequacy ratios periodically to ensure credit worthiness.

Transactions involving derivatives are with counterparties with whom the Group has signed agreements and which have sound credit ratings. The Group does not expect any counterparty fail to meet its obligations.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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**5. Financial risk management (continued)**

**Credit risk (continued)**

The Group establishes an allowance for doubtful receivables that represents its estimate of incurred losses in respect of receivables from subscribers. This allowance includes the specific loss component that relates to individual subscribers exposures, and adjusted for a general provision which is determined based on historical data of payment statistics. Impairment loss as a percentage of revenues represented 0.9% and 1.1% of revenues for the nine and three months ended 30 September 2008. If impairment loss as a percentage of revenues increased to 1.5% of revenues, the impairment loss would have been increased by $32,136 and $8,785, negatively impacting profit for the nine and three months ended 30 September 2008.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group s reputation. Typically, the Group ensures that it has sufficient cash and cash equivalents to meet expected operational expenses, including financial obligations.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Currency risk**

The Group is exposed to currency risk on certain revenues such as roaming revenues, purchases and certain operating costs such as roaming expenses and network related costs and resulting receivables and payables, borrowings and deferred payments related to BeST acquisition that are denominated in a currency other than the respective functional currencies of Group entities, primarily TRY for operations conducted in Turkey. The currencies in which these transactions are primarily denominated are EUR, USD and SEK.

Derivative financial instruments such as forward contracts and options are used to hedge exposure to fluctuations in foreign exchange rates. The Group uses forward exchange contracts to hedge its currency risk. When necessary, forward exchange contracts are rolled over at maturity.

The Group s investments in its equity accounted investee Fintur and its subsidiaries in Ukraine and Belarus are not hedged with respect to the currency risk arising from the net assets as those currency positions are considered to be long-term in nature.

**Interest rate risk**

The Group has not entered into any type of derivative instrument in order to hedge interest rate risk as at 30 September 2008.

The Board s policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business.

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**6. Segment reporting**

**Geographical segments:**

The primary format, geographical segments, is based on the dominant source and nature of the Group s risk and returns as well as the Group s internal reporting structure.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the entities. Segment assets are based on the geographical location of the assets.

The Group comprises the following main geographical segments: Turkey, Ukraine, Belarus and Turkish Republic of Northern Cyprus.

**Business segments:**

In presenting information on the basis of business segments, segment revenue is based on the operational activity of the entities. Segment assets are based on the intended use of the assets.

The Group comprises the following main business segments: Telecommunications and betting businesses.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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

**6. Segment reporting (continued)**

**Geographical segments**

| | **Nine months ended 30 September** | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Turkey** | | **Ukraine** | | **Turkish Republic of Northern Cyprus** | | **Belarus** | | **Other** | | **Eliminations** | | **Consolidat** |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 |
| Total external revenues | 4,994,305 | 4,287,142 | 326,826 | 171,939 | 64,140 | 61,962 | 90 | - | - | - | - | - | 5,385,361 |
| Inter-segment revenue | 2,922 | 3,667 | 1,207 | 949 | 6,540 | 4,432 | - | - | - | - | (10,669) | (9,048) | - |
| Total segment revenue | 4,997,227 | 4,290,809 | 328,033 | 172,888 | 70,680 | 66,394 | 90 | - | - | - | (10,669) | (9,048) | 5,385,361 |
| Segment result | 1,564,707 | 1,370,674 | (63,376) | (86,141) | 18,470 | 8,261 | (4,128) | - | (47) | - | 3,077 | 85 | 1,518,703 |
| Unallocated income/(expense), net | | | | | | | | | | | | | (16,448) |
| Results from operating activities | | | | | | | | | | | | | 1,502,255 |
| Net finance income/(expense) | | | | | | | | | | | | | 346,833 |
| Share of profit/(loss) of equity accounted investees | (34,361) | (32,729) | - | - | - | - | - | - | 108,743 | 76,075 | - | - | 74,382 |
| Income tax expense | | | | | | | | | | | | | (405,504) |
| Profit for the period | | | | | | | | | | | | | 1,517,966 |

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As at and for the nine and three months ended 30 September 2008**

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

**6. Segment reporting (continued)**

**Geographical segments (continued)**

**Three months ended 30 September**

| | **Turkey** | | **Ukraine** | | **Turkish Republic of Northern Cyprus** | | **Belarus** | | **Other** | | **Eliminations** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 200 |
| Total external revenues | 1,906,722 | 1,625,806 | 127,131 | 75,145 | 21,980 | 21,815 | 90 | - | - | - | - | - | 2,055,923 | 1,7 |
| Inter-segment revenue | 1,948 | 1,663 | 639 | 333 | 2,598 | 1,556 | - | - | - | - | (5,185) | (3,552) | - | - |
| Total segment revenue | 1,908,670 | 1,627,469 | 127,770 | 75,478 | 24,578 | 23,371 | 90 | - | - | - | (5,185) | (3,552) | 2,055,923 | 1,7 |
| Segment result | 679,247 | 585,656 | (16,703) | (21,851) | 6,093 | 4,553 | (4,128) | - | (21) | - | 1,257 | 837 | 665,745 | 569 |
| Unallocated income/(expense), net | | | | | | | | | | | | | 3,639 | 2,3 |
| Results from operating activities | | | | | | | | | | | | | 669,384 | 57 |
| Net finance income/(expense) | | | | | | | | | | | | | 66,922 | (14 |
| Share of profit/(loss) of equity accounted investees | (13,827) | (14,803) | - | - | - | - | - | - | 38,966 | 31,999 | - | - | 25,139 | 17, |
| Income tax expense | | | | | | | | | | | | | (160,294) | (50 |
| Profit for the period | | | | | | | | | | | | | 601,151 | 39 |

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**6. Segment reporting (continued)**

**Geographical segments (continued)**

**As at 30 September 2008 and 31 December 2007**

| | **Turkey** | | **Ukraine** | | **Turkish Republic of Northern Cyprus** | | **Belarus** | | **Other** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Segment assets | 3,784,994 | 3,730,627 | 818,192 | 708,005 | 76,741 | 70,570 | 832,114 | | 33 | 125,066 | 5,512,074 | 4,634,268 |
| Investment in equity accounted investees | 134,603 | 149,306 | - | - | - | - | - | - | 630,098 | 515,079 | 764,701 | 664,385 |
| Unallocated assets | | | | | | | | | | | 3,293,489 | 3,170,393 |
| Total assets | | | | | | | | | | | 9,570,264 | 8,469,046 |
| Segment liabilities | 1,512,165 | 1,096,780 | 130,838 | 91,561 | 9,903 | 12,694 | 5,428 | - | 39 | 48 | 1,658,373 | 1,201,083 |
| Unallocated liabilities | | | | | | | | | | | 1,260,356 | 1,636,758 |
| Total liabilities | | | | | | | | | | | 2,918,729 | 2,837,841 |

**Nine months ended 30 September**

| | **Turkey** | | **Ukraine** | | **Turkish Republic of Northern Cyprus** | | **Belarus** | | **Other** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Capital expenditure | 421,496 | 345,714 | 160,910 | 129,146 | 15,108 | 33,922 | 833,402 | - | - | - | 1,430,916 | 508,782 |
| Depreciation | 288,183 | 354,785 | 55,308 | 36,468 | 3,032 | 4,511 | 497 | - | - | - | 347,020 | 395,764 |
| Amortization of intangible assets | 160,659 | 166,373 | 24,012 | 25,112 | 2,686 | 1,549 | 2,695 | - | - | - | 190,052 | 193,034 |

**Three months ended 30 September**

| | **Turkey** | | **Ukraine** | | **Turkish Republic of Northern Cyprus** | | **Belarus** | | **Other** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Capital expenditure | 125,048 | 157,274 | 47,677 | 26,137 | 2,928 | 4,690 | 833,402 | - | - | - | 1,009,055 | 188,101 |
| Depreciation | 89,258 | 119,299 | 20,576 | 14,980 | 1,054 | 1,217 | 497 | - | - | - | 111,385 | 135,496 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Amortization of intangible assets | 50,204 | 57,404 | 6,835 | 8,630 | 929 | 706 | 2,695 | - | - | - | 60,663 | 66,740 |

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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**6. Segment reporting (continued)**

**Business segments**

| | **Nine months ended 30 September** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Telecommunications** | | **Betting** | | **Other operations** | | **Consolidated** | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Total external revenue | 5,240,436 | 4,392,592 | 131,778 | 116,113 | 13,147 | 12,338 | 5,385,361 | 4,521,043 |
| Capital expenditure | 1,400,022 | 499,212 | 971 | 1,093 | 29,923 | 8,477 | 1,430,916 | 508,782 |
| | **Three months ended 30 September** | | | | | | | |
| | **Telecommunications** | | **Betting** | | **Other operations** | | **Consolidated** | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Total external revenue | 2,014,329 | 1,678,039 | 37,067 | 40,025 | 4,527 | 4,702 | 2,055,923 | 1,722,766 |
| Capital expenditure | 996,492 | 180,982 | 182 | 351 | 12,381 | 6,768 | 1,009,055 | 188,101 |
| | **As at 30 September 2008 and 31 December 2007** | | | | | | | |
| | **Telecommunications** | | **Betting** | | **Other operations** | | **Consolidated** | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Segment assets | 5,427,295 | 4,439,037 | 17,291 | 20,660 | 67,488 | 174,571 | 5,512,074 | 4,634,268 |

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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**7. Non-current assets held for sale**

Bilyoner Interaktif Hizmetler AS ( Bilyoner ), a part of betting business, is presented as a disposal group held for sale following the Group s commitment on 21 May 2008 to sell all of its stake in Bilyoner to Cukurova Group and purchase 100% shares of Superonline Uluslararasi Elektronik Bilgilendirme ve Haberlesme Hizmetleri AS ( Superonline ). Transfer of shares has been completed subsequently in October 2008.

At 30 September 2008, the disposal group comprises assets of $14,321 less liabilities of $6,471.

| | Note | 30 September 2008 |
|---|---|---|
| **Assets classified as held for sale** | | |
| Property, plant and equipment | 13 | 518 |
| Intangible assets | 14 | 565 |
| Inventories | | 33 |
| Trade receivables and accrued income | | 26 |
| Other assets | | 283 |
| Cash and cash equivalents | 21 | 12,896 |
| | | **14,321** |
| **Liabilities classified as held for sale** | | |
| Employee benefits | | 52 |
| Deferred tax liabilities | | 113 |
| Bank overdraft | | 91 |
| Trade and other payables | | 5,493 |
| Due to related parties | | 342 |
| Provisions | | 380 |
| | | **6,471** |

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**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**8. Acquisitions of subsidiary**

**Business combination**

On 29 July 2008, Beltel Telekomunikasyon Hizmetleri AS ( Beltel ) signed a Share Purchase Agreement ( SPA ) to acquire 80% stake in BeST, which is specialized in rendering of services using GSM Technologies. On 26 August 2008, the control over BeST is acquired from the State Committee on Property of the Republic of Belarus for a consideration of $500,000. On 26 August 2008, $300,000 of the total consideration is paid and the remaining payments amounting to $200,000 will be made in two equal installments on 31 December 2009 and 31 December 2010, respectively. An additional payment of $100,000 will be made to the seller when BeST records a full-year positive net income for the first time.

Results of operations of BeST for one month period ended 30 September 2008 amounting to $(3,480) are included in the accompanying consolidated interim financial statements. If the acquisition had occured on 1 January 2008, management estimates that consolidated revenue would have been $5,386,090 and consolidated profit for the period would have been $1,489,050.

The acquisition had the following effect on the Group s assets and liabilities on the acquisition date:

| | **Note** | **Pre-acquisition carrying amounts** | **Fair value adjustments** | **Recognized values on acquisition** |
|---|---|---|---|---|
| Property, plant and equipment | 13 | 181,538 | - | 181,538 |
| Intangible assets | 14 | 25,407 | 662,976 | 688,383 |
| Other assets | | 4,239 | - | 4,239 |
| Cash and cash equivalents | | 25 | - | 25 |
| Loans and borrowings | | (21,463) | - | (21,463) |
| Other liabilities | | (4,663) | - | (4,663) |
| Deferred tax liabilities | | - | (174,230) | (174,230) |
| **Net identifiable assets and liabilities** | | **185,083** | **488,746** | **673,829** |
| Share of the Company on net identifiable assets and liabilities (80%) | | | | **539,062** |
| Consideration paid, satisfied in cash | | | | (300,000) |
| Cash acquired | | | | 25 |
| Net cash outflow | | | | (299,975) |
| Consideration payable in relation to the acquisition | | | | (239,062) |

In accordance with the SPA, Beltel also agreed to grant a put option to the minority shareholder by giving the right to sell its entire stake (20%) to Beltel at fair value after 5 years from the closing date. The Group recognized a liability in relation to the put option and derecognized minority interest (note 24).

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognized on acquisition are their estimated fair values (see note 4 for methods used in determining fair values).

Fair values of recognized assets and liabilities as well as the cost of the combination at the date of acquisition are provisionally accounted by the Company. The time period for recognition of additional items or adjustments to the fair values of assigned recognized assets, liabilities and contingent liabilities is limited to 12 months from the date of acquisition.

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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

**9. Revenue**

| | **Nine months ended** | | **Three months ended** | |
|---|---|---|---|---|
| | **30 September** | | **30 September** | |
| | **2008** | **2007** | **2008** | **2007** |
| Communication fees | 5,119,057 | 4,270,800 | 1,963,904 | 1,642,291 |
| Commission fees on betting business | 131,778 | 116,113 | 37,067 | 40,025 |
| Monthly fixed fees | 52,503 | 39,979 | 17,608 | 13,917 |
| Simcard sales | 21,081 | 18,626 | 9,440 | 5,205 |
| Call center revenues | 12,696 | 9,064 | 4,479 | 3,461 |
| Other revenues | 48,246 | 66,461 | 23,425 | 17,867 |
| | 5,385,361 | 4,521,043 | 2,055,923 | 1,722,766 |

**10. Personnel Expenses**

| | **Nine months ended** | | **Three months ended** | |
|---|---|---|---|---|
| | **30 September** | | **30 September** | |
| | **2008** | **2007** | **2008** | **2007** |
| Wages and salaries (*) | 393,517 | 254,238 | 137,156 | 94,022 |
| Increase in liability for long-service leave | 7,506 | 5,490 | 665 | 40 |
| Contributions to defined contribution plans | 3,425 | 900 | 973 | 327 |
| | 404,448 | 260,628 | 138,794 | 94,389 |

* Wages and salaries include compulsory social security contributions.

**11. Finance income and expenses**

Recognised in profit or loss:

| | **Nine months ended** | | **Three months ended** | |
|---|---|---|---|---|
| | **30 September** | | **30 September** | |
| | **2008** | **2007** | **2008** | **2007** |
| Interest income on bank deposits | 257,237 | 166,770 | 94,321 | 58,156 |
| Net foreign exchange gain | 71,713 | - | (34,637) | - |
| Late payment interest income | 35,047 | 24,329 | 14,775 | 10,382 |
| Premium income on option contracts | 12,461 | 14,475 | 6,496 | 11,538 |
| Net gain on disposal of available-for-sale financial assets transferred from equity | 6,819 | 1,662 | - | 1,662 |
| Interest income on available-for-sale financial assets | 4,684 | 1,488 | 2,857 | 160 |

| | | | | |
|---|---|---|---|---|
| Interest income on unimpaired held-to-maturity investments | - | 710 | - | - |
| Other interest income | 6,838 | 4,082 | (162) | 1,574 |
| Finance income | 394,799 | 213,516 | 83,650 | 83,472 |
| | | | | |
| Discount interest expense on financial liabilities measured at amortised cost | (39,724) | (30,929) | (13,706) | (6,735) |
| Option premium expense | (3,921) | (7,594) | (1,790) | (7,594) |
| Net foreign exchange loss | - | (382,615) | - | (205,107) |
| Debt extinguishment cost | - | (17,549) | - | (9,671) |
| Other | (4,321) | (6,707) | (1,232) | (1,612) |
| Finance expense | (47,966) | (445,394) | (16,728) | (230,719) |
| Net finance costs | 346,833 | (231,878) | 66,922 | (147,247) |

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**11. Finance income and expenses(continued)**

Late payment interest income is interest received from subscribers who pay monthly invoices after due date specified on the invoices.

Interest expense on borrowings capitalized on fixed assets amounts to $8,215, $8,192, $2,466 and $3,864 for the nine and three months ended 30 September 2008 and 2007, respectively.

**12. Income tax expense**

| | **Nine months ended** | | **Three months ended** | |
|---|---|---|---|---|
| | **30 September 2008** | **2007** | **30 September 2008** | **2007** |
| **Current tax expense** | | | | |
| Current period | (432,056) | (297,800) | (172,505) | (104,160) |
| | (432,056) | (297,800) | (172,505) | (104,160) |
| **Deferred tax benefit** | | | | |
| Origination and reversal of temporary differences | 24,450 | 79,649 | 11,482 | 49,078 |
| Benefit of investment incentive recognized | 2,102 | 20,931 | 729 | 4,896 |
| | 26,552 | 100,580 | 12,211 | 53,974 |
| Total income tax expense | (405,504) | (197,220) | (160,294) | (50,186) |

**Reconciliation of effective tax rate**

The reported income tax expense for the nine and three months ended 30 September 2008 and 2007 are different than the amounts computed by applying the statutory tax rate to profit before income tax of the Company, as shown in the following reconciliation:

| | **Nine months ended** | | | | **Three months ended** | | | |
|---|---|---|---|---|---|---|---|---|
| | | **30 September 2008** | | **2007** | | **30 September 2008** | | **2007** |
| Profit for the period | | 1,517,966 | | 913,739 | | 601,151 | | 391,317 |
| Total income tax expense | | 405,504 | | 197,220 | | 160,294 | | 50,186 |
| Profit excluding income tax | | 1,923,470 | | 1,110,959 | | 761,445 | | 441,503 |
| Income tax using the Company s domestic tax rate | 20% | (384,694) | 20% | (222,192) | 20% | (152,289) | 20% | (88,301) |
| Effect of tax rates in foreign jurisdictions | - | 3,148 | (1)% | 5,817 | - | 1,004 | - | 1,732 |
| Tax exempt income | - | 5,036 | (1)% | 8,567 | - | - | (1)% | 2,334 |
| Non deductible expenses | - | (6,651) | 1% | (10,528) | - | (3,298) | 2% | (7,466) |
| Tax incentives | - | 2,102 | (2)% | 20,931 | - | 729 | (1)% | 4,896 |
| Effect of gradual tax rate | - | - | 1% | (5,862) | - | - | (3)% | 13,264 |
| Difference in effective tax rate of equity accounted investees | (1)% | 16,566 | (1)% | 12,095 | (1)% | 6,098 | (3)% | 12,095 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Unrecognized deferred tax assets | 2% | (34,342) | 2% | (26,287) | 2% | (12,202) | 1% | (4,527) |
| Other | - | (6,669) | (2)% | 20,239 | - | (336) | (4)% | 15,787 |
| Total income tax expense | 21% | (405,504) | 18% | (197,220) | 21% | (160,294) | 11% | (50,186) |

The income taxes payable of $170,860 as at 30 September 2008 represents the amount of current income tax provision in respect of related taxable profit for the nine months ended 30 September 2008 netted off with advance tax payment made as at 30 September 2008.

The income tax payable of $443,194 as at 31 December 2007 represents the amount of income taxes payable in respect of related taxable profit for the year ended 31 December 2007.

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**12. Income tax expense (continued)**

**Reconciliation of effective tax rate (continued)**

The Turkish entities within the Group are subject to corporate tax at the rate of 20%. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until the end of April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years. Advance tax returns are filed on a quarterly basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting tax exempt income.

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of disguised profit distribution via transfer pricing . The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

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## 13. Property, plant and equipment

| Cost or deemed cost | Balance at 1 January 2007 | Additions | Disposals | Transfers | Effect of movements in exchange rates | Balance at 31 December 2007 |
|---|---|---|---|---|---|---|
| Network infrastructure (All Operational) | 4,476,792 | 77,393 | (394,103) | 460,982 | 862,675 | 5,483,739 |
| Land and buildings | 253,708 | 29,474 | (124) | - | 45,214 | 328,272 |
| Equipment, fixtures and fittings | 292,483 | 14,870 | (8,609) | 2,651 | 55,903 | 357,298 |
| Motor vehicles | 17,818 | 819 | (5,033) | - | 3,648 | 17,252 |
| Leasehold improvements | 131,830 | 1,304 | (188) | - | 21,016 | 153,962 |
| Construction in progress | 267,187 | 452,268 | - | (463,633) | 52,947 | 308,769 |
| **Total** | **5,439,818** | **576,128** | **(408,057)** | **-** | **1,041,403** | **6,649,292** |
| | | | | | | |
| **Accumulated Depreciation** | | | | | | |
| Network infrastructure (All Operational) | 3,063,148 | 501,390 | (385,685) | - | 663,137 | 3,841,990 |
| Land and buildings | 67,443 | 11,785 | (42) | - | 14,842 | 94,028 |
| Equipment, fixtures and fittings | 253,266 | 17,747 | (8,522) | - | 64,223 | 326,714 |
| Motor vehicles | 15,601 | 1,286 | (4,866) | - | 3,377 | 15,398 |
| Leasehold improvements | 123,369 | 707 | (122) | - | 25,313 | 149,267 |
| **Total** | **3,522,827** | **532,915** | **(399,237)** | **-** | **770,892** | **4,427,397** |
| | | | | | | |
| **Total property, plant and equipment** | **1,916,991** | **43,213** | **(8,820)** | **-** | **270,511** | **2,221,895** |

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**13. Property, plant and equipment (continued)**

| **Cost or deemed cost** | **Balance at 1 January 2008** | **Additions** | **Disposals** | **Transfers** | **Transfers to assets held for sale** | **Acquisitions through business combinations** | **Effect of movements in exchange rates** | **Balance at 30 September 2008** |
|---|---|---|---|---|---|---|---|---|
| Network infrastructure (All Operational) | 5,483,739 | 115,588 | (64,909) | 300,144 | (1,021) | 29,268 | (255,305) | 5,607,504 |
| Land and buildings | 328,272 | 7,132 | (745) | 4,515 | - | 1,842 | (16,573) | 324,443 |
| Equipment, fixtures and fittings | 357,298 | 7,683 | (2,671) | 3,697 | (118) | 1,734 | (16,456) | 351,167 |
| Motor vehicles | 17,252 | 1,278 | (1,199) | - | - | 901 | (937) | 17,295 |
| Leasehold improvements | 153,962 | 2,472 | (446) | 14,658 | - | - | (8,134) | 162,512 |
| Construction in progress | 308,769 | 324,166 | - | (323,014) | - | 140,172 | (12,209) | 437,884 |
| **Total** | **6,649,292** | **458,319** | **(69,970)** | **-** | **(1,139)** | **173,917** | **(309,614)** | **6,900,805** |
| | | | | | | | | |
| **Accumulated Depreciation** | | | | | | | | |
| Network infrastructure (All Operational) | 3,841,990 | 321,553 | (58,039) | - | (570) | - | (201,178) | 3,903,756 |
| Land and buildings | 94,028 | 9,700 | (168) | - | - | - | (5,006) | 98,554 |
| Equipment, fixtures and fittings | 326,714 | 13,205 | (1,884) | - | (51) | - | (16,482) | 321,502 |
| Motor vehicles | 15,398 | 934 | (959) | - | - | - | (854) | 14,519 |
| Leasehold improvements | 149,267 | 1,628 | (79) | - | - | - | (8,039) | 142,777 |
| **Total** | **4,427,397** | **347,020** | **(61,129)** | **-** | **(621)** | **-** | **(231,559)** | **4,481,108** |
| | | | | | | | | |
| **Total property, plant and equipment** | **2,221,895** | **111,299** | **(8,841)** | **-** | **(518)** | **173,917** | **(78,055)** | **2,419,697** |

Depreciation expenses for the nine and three months ended 30 September 2008 and 2007 are $347,020, $395,764, $111,385 and $135,496, respectively.

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## 13. Property, plant and equipment (continued)

**Leased assets**

The Group leases equipments under a number of finance lease agreements. At the end of each of the lease period, the Group has the option to purchase the equipment at a beneficial price. As at 30 September 2008, net carrying amount of fixed assets acquired under finance leases amounted to $84,580 (31 December 2007: $95,751).

**Property, plant and equipment under construction**

Construction in progress consisted of expenditures in GSM network of the Company, Astelit, Kibris Mobile Telekomunikasyon Limited Sirketi ( Kibris Telekom ) and BeST and non-operational items as at 30 September 2008 and 31 December 2007.

As at 30 September 2008, there is a pledge on head office building amounting to $92,680. Also, a mortgage is placed on Izmir and Davutpasa buildings amounting to $1,218 and $406, respectively (31 December 2007: $1,288 and $429, respectively).

## 14. Intangible assets

In April 1998, the Company signed the License with the Turkish Ministry, under which it was granted a GSM license, which is amortized in 25 years with a carrying amount of $541,364 as at 30 September 2008 (31 December 2007: $602,070). The amortization period of the licence will end in 2023.

| **Cost** | **Balance at 1 January 2007** | **Additions** | **Disposals** | **Transfers** | **Effects of movements in exchange rates** | **Balance at 31 December 2007** |
|---|---|---|---|---|---|---|
| GSM and other telecommunication operating licences | 902,427 | 29,972 | - | 16,636 | 168,520 | 1,117,555 |
| Computer Software | 1,565,334 | 13,391 | (3,472) | 188,137 | 309,381 | 2,072,771 |
| Transmission Lines | 31,286 | 1,917 | - | - | 6,471 | 39,674 |
| Central Betting System Operating Right | 4,038 | 55 | - | - | 835 | 4,928 |
| Customer Base | 1,255 | - | - | - | 260 | 1,515 |
| Other | 84 | 245 | - | 20 | (254) | 95 |
| Construction in progress | 47,565 | 161,405 | - | (204,793) | - | 4,177 |
| **Total** | **2,551,989** | **206,985** | **(3,472)** | **-** | **485,213** | **3,240,715** |
| | | | | | | |
| **Accumulated Amortization** | | | | | | |
| GSM and other telecommunication operating licences | 327,829 | 50,341 | - | - | 63,411 | 441,581 |
| Computer Software | 966,513 | 205,052 | (766) | - | 219,992 | 1,390,791 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Transmission Lines | 18,986 | 3,467 | - | - | 4,332 | 26,785 |
| Central Betting System Operating Right | 2,711 | 1,173 | - | - | 692 | 4,576 |
| Customer Base | 1,255 | - | - | - | 260 | 1,515 |
| Other | 27 | 29 | - | - | 8 | 64 |
| **Total** | **1,317,321** | **260,062** | **(766)** | **-** | **288,695** | **1,865,312** |
| **Total intangible assets** | **1,234,668** | **(53,077)** | **(2,706)** | **-** | **196,518** | **1,375,403** |

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**14. Intangible assets (continued)**

| **Cost** | **Balance at 1 January 2008** | **Additions** | **Disposals** | **Transfers** | **Transfers to assets held for sale** | **Acquisitions through business combinations** | **Effect of movements in exchange rates** | **Balance at 30 September 2008** |
|---|---|---|---|---|---|---|---|---|
| GSM and other telecommunication operating licenses | 1,117,555 | 9,052 | - | 11,132 | (64) | 635,146 | (52,628) | 1,720,193 |
| Computer Software | 2,072,771 | 371 | (60) | 120,583 | (1,815) | 838 | (101,822) | 2,090,866 |
| Transmission lines | 39,674 | 928 | - | - | - | - | (2,155) | 38,447 |
| Central Betting System Operating Right | 4,928 | - | (11) | - | - | - | (268) | 4,649 |
| Customer Base | 1,515 | - | - | - | - | - | (83) | 1,432 |
| Other | 95 | 1,079 | (19) | - | (7) | 46 | 91 | 1,285 |
| Construction in progress | 4,177 | 127,765 | - | (131,715) | - | 23,455 | (227) | 23,455 |
| **Total** | **3,240,715** | **139,195** | **(90)** | **-** | **(1,886)** | **659,485** | **(157,092)** | **3,880,327** |
| | | | | | | | | |
| **Accumulated Amortization** | | | | | | | | |
| GSM and other telecommunication operating licences | 441,581 | 44,887 | - | - | (47) | - | (20,052) | 466,369 |
| Computer Software | 1,390,791 | 142,019 | (15) | - | (1,272) | - | (75,271) | 1,456,252 |
| Transmission Lines | 26,785 | 2,796 | - | - | - | - | (1,505) | 28,076 |
| Central Betting System Operating Right | 4,576 | 327 | (5) | - | - | - | (249) | 4,649 |
| Customer Base | 1,515 | - | - | - | - | - | (83) | 1,432 |
| Other | 64 | 23 | (19) | - | (2) | - | 80 | 146 |
| **Total** | **1,865,312** | **190,052** | **(39)** | **-** | **(1,321)** | **-** | **(97,080)** | **1,956,924** |
| | | | | | | | | |
| **Total intangible assets** | **1,375,403** | **(50,857)** | **(51)** | **-** | **(565)** | **659,485** | **(60,012)** | **1,923,403** |

Amortization expenses for the nine and three months ended 30 September 2008 and 2007 are $190,052, $193,034, $60,663 and $66,740, respectively.

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## 15. Equity accounted investees

The Group s share of profit in its equity accounted investees for the nine and three months ended 30 September 2008 and 2007 are $74,382, $43,346, $25,139 and $17,196, respectively. Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

| | Ownership | Current Assets | Non-current Assets | Total Assets | Current Liabilities | Non-current Liabilities | Total Liabilities |
|---|---|---|---|---|---|---|---|
| **30 September 2008** | | | | | | | |
| Fintur (associate) | 41.45% | 588,446 | 2,445,042 | 3,033,488 | 375,374 | 1,014,848 | 1,390,222 |
| A-Tel (joint venture)* | 50.00% | 97,305 | 259,079 | 356,384 | 34,277 | 51,954 | 86,231 |
| | | 685,751 | 2,704,121 | 3,389,872 | 409,651 | 1,066,802 | 1,476,453 |
| **31 December 2007** | | | | | | | |
| Fintur (associate) | 41.45% | 418,485 | 1,390,361 | 1,808,846 | 235,264 | 31,355 | 266,619 |
| A-Tel (joint venture)* | 50.00% | 85,473 | 287,790 | 373,263 | 15,939 | 57,707 | 73,646 |
| | | 503,958 | 1,678,151 | 2,182,109 | 251,203 | 89,062 | 340,265 |

| | Nine months ended 30 September | | | Three months ended 30 September | | |
|---|---|---|---|---|---|---|
| | Revenue | Direct cost of revenue | Profit for the period | Revenue | Direct cost of revenue | Profit/(Loss) for the period |
| **2008** | | | | | | |
| Fintur (associate) | 1,350,288 | (549,337) | 262,347 | 500,410 | (198,219) | 94,006 |
| A-Tel (joint venture)* | 76,465 | (62,423) | 7,417 | 30,263 | (23,658) | 2,566 |
| | 1,426,753 | (611,760) | 269,764 | 530,673 | (221,877) | 96,572 |
| **2007** | | | | | | |
| Fintur (associate) | 1,063,879 | (431,175) | 183,533 | 411,306 | (167,522) | 77,198 |
| A-Tel (joint venture)* | 66,345 | (73,601) | 4,348 | 25,301 | (34,852) | (939) |
| | 1,130,224 | (504,776) | 187,881 | 436,607 | (202,374) | 76,259 |

* Figures mentioned in the above table includes fair value adjustments arised during acquisition of A-tel.

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**15. Equity accounted investees (continued)**

The Company s investment in Fintur and A-Tel amounts to $630,098 and $134,603 respectively as at 30 September 2008 (31 December 2007: $515,079 and $149,306).

During March 2008 and February 2007, at the General Assembly meeting of A-Tel, it has been decided to distribute dividends and accordingly the Company reduced the carrying value of its investment in A-Tel by the dividends declared of TRY 12,543 (equivalent to $10,184 as at 30 September 2008) and TRY 37,448 (equivalent to $30,406 as at 30 September 2008) as at 30 September 2008 and 31 December 2007, respectively.

**16. Other investments, including derivatives**

***Non-current investments:***

| | | **30 September 2008** | | **31 December 2007** | |
|---|---|---|---|---|---|
| | **Country of incorporation** | **Ownership (%)** | **Carrying Amount** | **Ownership (%)** | **Carrying Amount** |
| Aks Televizyon Reklamcilik ve Filmcilik Sanayi ve Ticaret AS ( Aks TV ) | Turkey | 6.24 | 27,497 | 6.24 | 29,077 |
| T Medya Yatirim Sanayi ve Ticaret AS ( T-Medya ) | Turkey | 9.23 | 12,556 | 9.23 | 13,277 |
| | | | 40,053 | | 42,354 |

In 2003, the Group acquired a 6.24% interest in Aks TV and an 8.23% interest in T-Medya, media companies owned by Cukurova Group. On 27 June 2007, T-Medya took over Asli Gazetecilik ve Matbaacilik AS and, as a result of this restructuring, interest of the Group in T-Medya increased from 8.23% to 9.23%.

Investment in Aks TV and T-Medya is classified as available-for-sale financial assets. However, there is not active market available for these equity instruments, and application of valuation techniques is impracticable. Accordingly, the Company measured these investments at cost.

***Current investments:***

| | **30 September 2008** | **31 December 2007** |
|---|---|---|
| **Available-for-sale financial assets** | **54,987** | **28,218** |
| *Government bonds, treasury bills* | 54,987 | 1,738 |
| *Foreign investment equity funds* | - | 26,480 |
| **Derivatives not used for hedging** | **3,018** | **-** |
| *Option contracts* | 3,018 | - |
| | 58,005 | 28,218 |

Interest bearing available-for-sale TRY denominated, USD denominated and EUR denominated government bonds and treasury bills with a carrying amount of $36,203, $407 and $300, respectively as at 30 September 2008 (31 December 2007: USD denominated $1,440 and EUR denominated $298) have stated interest rates of 14%, Libor+1.0%-Libor+1.6% (31 December 2007: Libor+1.0%-Libor+1.6%) and Euribor+1.8% (31 December 2007: Euribor+1.8%), respectively and mature in 1 to 4 years (31 December 2007: 2 to 3 years). Besides, the Company has TRY denominated discounted government bond with a carrying amount of $18,077 as at 30 September 2008 (31 December 2007: nil). Derivatives not used for hedging are composed of option contracts carried at fair value calculated by using option pricing models.

The Group s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 30.

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## 17. Other non-current assets

| | 30 September 2008 | 31 December 2007 |
|---|---|---|
| Prepaid expenses | 24,073 | 28,365 |
| Value added tax ( VAT ) receivable | 15,057 | - |
| Prepayment for subscriber acquisition cost | 7,173 | 6,347 |
| Deposits and guarantees given | 6,008 | 5,621 |
| Others | 6,113 | 3,838 |
| | 58,424 | 44,171 |

Subscriber acquisition costs are subsidies to the subscribers for the handsets, under which Astelit can enforce the minimum customer contract period and can determine revenues that can be linked to individual contracts.

## 18. Deferred tax assets and liabilities

***Unrecognised deferred tax assets***

Deferred tax assets have not been recognised in respect of the following items:

| | 30 September 2008 | 31 December 2007 |
|---|---|---|
| Deductible temporary differences | 13,880 | 457 |
| Tax losses | 105,235 | 48,604 |
| Total unrecognised deferred tax assets | 119,115 | 49,061 |

The deductible temporary differences do not expire under current tax legislation. Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Therefore, deferred tax assets have not been recognised in respect of these items resulting from certain consolidated subsidiaries because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

As at 30 September 2008, expiration of tax losses is as follows:

| Year Originated | Amount | Expiration Date |
|---|---|---|
| 2003 | 38 | 2008 |
| 2004 | 1,347 | 2009 |
| 2005 | 1,337 | 2010 |
| 2006 | 5,146 | 2011 |
| 2007 | 15,554 | 2012 |
| 2008 | 56,408 | 2013 thereafter |

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**18. Deferred tax assets and liabilities (continued)**

***Unrecognised deferred tax assets (continued)***

As at 30 September 2008, net operating loss carry forwards which will be carried indefinitely are as follows:

| Year Originated | Amount |
|---|---|
| 2004 | 26,018 |
| 2005 | 67,646 |
| 2006 | 118,545 |
| 2007 | 46,201 |
| 2008 | 102,398 |

Astelit decreased its unrecognized deferred tax assets amounting to $23,567 as at 31 December 2007 due to the Budget Law enacted for 2007 in Ukraine which disallowed carry forwards of the tax losses accumulated before 1 January 2006. However, there are no such limitations on the utilization of tax losses accumulated before 1 January 2006 in 2008. Thus, Astelit has increased its unrecognized deferred tax assets by the same amount.

***Recognised deferred tax assets and liabilities***

Deferred tax assets and liabilities as at 30 September 2008 and 31 December 2007 are attributable to the following:

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **30 September** | **31 December** | **30 September** | **31 December** | **30 September** | **31 December** |
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Property, plant & equipment and intangible assets | 524 | 872 | (323,266) | (201,602) | (322,742) | (200,730) |
| Investment | - | - | (14,541) | (7,816) | (14,541) | (7,816) |
| Provisions | 11,572 | 12,813 | - | - | 11,572 | 12,813 |
| Trade and other payables | 75,658 | 54,749 | - | - | 75,658 | 54,749 |
| Prepaid expenses | - | - | (12,306) | - | (12,306) | - |
| Other items | 3,085 | 11,436 | (3,132) | (917) | (47) | 10,519 |
| Tax credit carry forwards | - | 523 | - | - | - | 523 |
| **Tax assets / (liabilities)** | **90,839** | **80,393** | **(353,245)** | **(210,335)** | **(262,406)** | **(129,942)** |
| Set off of tax | (88,081) | (77,947) | 88,081 | 77,947 | - | - |
| **Net tax assets / (liabilities)** | **2,758** | **2,446** | **(265,164)** | **(132,388)** | **(262,406)** | **(129,942)** |

All temporary differences are recognized in profit or loss except for the deferred tax effects of change in fair value of available-for-sale financial assets amounting to $(460) and $1,331 as at 30 September 2008 and 31 December 2007, respectively.

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## 19. Trade receivables and accrued income

| | **30 September 2008** | **31 December 2007** |
|---|---|---|
| Receivables from subscribers | 352,895 | 277,519 |
| Accounts and checks receivable | 197,096 | 87,538 |
| Accrued service income | 172,452 | 167,194 |
| Receivables from Turk Telekomunikasyon AS ( Turk Telekom ) | 10,555 | 26,312 |
| | 732,998 | 558,563 |

Trade receivables are shown net of allowance for doubtful debts amounting to $219,858 as at 30 September 2008 (31 December 2007: $181,746). The impairment loss recognized for the nine and three months ended 30 September 2008 and 2007 are $48,645, $23,872, $22,054 and $8,525, respectively.

Letters of guarantee received with respect to the accounts and checks receivable are amounted to $202,733 and $109,322 as at 30 September 2008 and 31 December 2007, respectively.

The accrued service income represents revenues accrued for subscriber calls (air-time), which have not been billed. Due to the volume of subscribers, there are different billing cycles; accordingly, an accrual is made at each period end to accrue revenues for rendered but not yet billed.

Receivables from Turk Telekom as at 30 September 2008 and 31 December 2007 represent net amounts that are due from Turk Telekom under the Interconnection Agreement. The Interconnection Agreement provides that Turk Telekom will pay to the Company for Turk Telekom s fixed-line subscribers calls to GSM subscribers.

The Group s exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 30.

## 20. Other current assets

| | **30 September 2008** | **31 December 2007** |
|---|---|---|
| Prepaid expenses | 137,415 | 61,056 |
| VAT receivable | 31,574 | 27,688 |
| Prepayment for subscriber acquisition cost | 20,663 | 14,704 |
| Interest income accruals | 20,140 | 36,338 |
| Advances to suppliers | 18,974 | 14,196 |
| Receivable from personnel | 4,419 | 1,878 |
| Restricted cash | - | 125,304 |
| Other | 14,050 | 10,370 |
| | 247,235 | 291,534 |

Prepaid expenses mainly consists of prepaid frequency usage fees amounting to $63,029 as at 30 September 2008 (31 December 2007: nil).

Subscriber acquisition costs are subsidies to the subscribers for the handsets, under which Astelit can enforce the minimum customer contract period and can determine revenues that can be linked to individual contracts.

As at 31 December 2007, restricted cash represents amounts deposited at banks as guarantees in connection with the loans used by the Group, which was released on 24 January 2008.

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## 21. Cash and cash equivalents

| | **30 September 2008** | **31 December 2007** |
|---|---|---|
| Cash on hand | 211 | 205 |
| Cheques received | 891 | 999 |
| Banks | 3,144,658 | 3,093,906 |
| -Demand deposits | 297,116 | 185,551 |
| -Time deposits | 2,847,542 | 2,908,355 |
| Bonds and bills | 11,047 | 190 |
| Cash and cash equivalents | 3,156,807 | 3,095,300 |
| Bank overdrafts | (82,565) | (2,125) |
| Cash held by disposal group | 12,896 | - |
| Cash and cash equivalents in the statement of cash flows | 3,087,138 | 3,093,175 |

As at 30 September 2008, cash and cash equivalents amounting to $102,181 (31 December 2007: $60,000) were deposited in banks, that are owned and/or controlled by Cukurova Group, a significant shareholder of the Company.

The Group s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

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## 22. Capital and reserves

***Reconciliation of movement in capital and reserves***

| | **Attributable to equity holders of the Company** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share Capital** | **Share Premium** | **Legal Reserves** | **Fair Value Reserve** | **Translation Reserve** | **Retained Earnings** | **Total** | **Minority Interest** | **Total Equity** |
| Balance at 1 January 2007 | 1,636,204 | 434 | 148,273 | 2,815 | (155,972) | 2,394,838 | 4,026,592 | 91,375 | 4,117,967 |
| Transfer to legal reserves | - | - | 108,561 | - | - | (108,561) | - | - | - |
| Total recognized income and expense | - | - | - | 1,737 | 651,990 | 946,957 | 1,600,684 | (43,838) | 1,556,846 |
| Dividends to shareholders | - | - | - | - | - | (411,913) | (411,913) | (45,712) | (457,625) |
| Acquisition of minority shares | - | - | - | - | - | - | - | (751) | (751) |
| Change in minority interest | - | - | - | - | - | - | - | 132,305 | 132,305 |
| **Balance at 30 September 2007** | **1,636,204** | **434** | **256,834** | **4,552** | **496,018** | **2,821,321** | **5,215,363** | **133,379** | **5,348,742** |
| Balance at 1 October 2007 | 1,636,204 | 434 | 256,834 | 4,552 | 496,018 | 2,821,321 | 5,215,363 | 133,379 | 5,348,742 |
| Total recognized income and expense | - | - | - | 929 | 173,580 | 403,205 | 577,714 | (1,342) | 576,372 |
| Change in minority interest | - | - | - | - | - | - | - | 6,091 | 6,091 |
| **Balance at 31 December 2007** | **1,636,204** | **434** | **256,834** | **5,481** | **669,598** | **3,224,526** | **5,793,077** | **138,128** | **5,931,205** |
| Balance at 1 January 2008 | 1,636,204 | 434 | 256,834 | 5,481 | 669,598 | 3,224,526 | 5,793,077 | 138,128 | 5,931,205 |
| Transfer to legal reserves | - | - | 121,945 | - | - | (121,945) | - | - | - |
| Total recognized income and expense | - | - | - | (7,196) | (317,686) | 1,517,027 | 1,192,145 | 5,052 | 1,197,197 |
| Dividends paid | - | - | - | - | - | (502,334) | (502,334) | (54,639) | (556,973) |
| Change in minority interest | - | - | - | - | - | - | - | 80,104 | 80,104 |
| **Balance at 30 September 2008** | **1,636,204** | **434** | **378,779** | **(1,715)** | **351,912** | **4,117,274** | **6,482,888** | **168,645** | **6,651,533** |

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**22. Capital and reserves (continued)**

***Share capital***

As at 30 September 2008, common stock represented 2,200,000,000 (31 December 2007: 2,200,000,000) authorized, issued and fully paid shares with a par value of TRY 1 each. In accordance with the Law No. 5083 with respect to TRY, on 9 May 2005, par value of each share is registered to be one TRY.

In connection with the redenomination of the Turkish Lira and as per the related amendments of Turkish Commercial Code, in order to increase the nominal value of the shares to TRY 1, 1,000 units of shares, each having a nominal value of TRY 0.001 shall be merged and each unit of share having a nominal value of TRY 1 shall be issued to represent such shares. The Company is still in the process of merging 1,000 existing ordinary shares, each having a nominal value of TRY 0.001 to one ordinary share having a nominal value of TRY 1 each. After the share merger which appears as a provisional article in the Articles of Association to convert the value of each share with a nominal value of TRY 0.001 to TRY 1, all shares will have a value of TRY 1. Although the merger process has not been finalized, the practical application is to state each share having a nominal value of TRY 1 which is consented by Capital Markets Board of Turkey ( CMB ). Accordingly, number of shares data is adjusted for the effect of this merger.

The holders of shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

***Translation reserve***

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign and domestic operations from their functional currencies to presentation currency of USD.

***Fair value reserve***

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or the asset is impaired.

***Legal reserve***

Under the Turkish Commercial Code, Turkish companies are required to set aside first and second level legal reserves out of their profits. First level legal reserves are set aside 5% of the distributable income per statutory accounts each year. The ceiling on the first legal reserves is 20% of the paid-up capital. The reserve requirement ends when the 20% of paid-up capital level has been reached. Second legal reserves correspond to 10% of profits actually distributed after the deduction of the first legal reserves and the minimum obligatory dividend pay-out (5% of the paid-up capital). There is no ceiling for second legal reserves and they are accumulated every year.

***Dividends***

The Company has adopted a dividend policy, which is set out in its corporate governance guidance. As adopted, the Company s general dividend policy is to pay dividends to shareholders with due regard to trends in the Company s operating performance, financial condition and other factors.

The Board of Directors intends to distribute cash dividends in an amount of not less than 50% of the Company s lower of distributable profit based on the financial statements prepared in accordance with the accounting principles accepted by the CMB or statutory records, for each fiscal year starting with profits for fiscal year 2004. However, the payment of dividends will still be subject to cash flow requirements of the Company, compliance with Turkish law and the approval of and amendment by the Board of Directors and the General Assembly of Shareholders.

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**22. Capital and reserves (continued)**

***Dividends (continued)***

On 27 February 2008, Board of Directors of the Company decided to distribute dividends amounting to TRY 648,714 (equivalent to $526,725 and $502,334 as at 30 September 2008 and 25 April 2008, respectively), which represented 50% of distributable income. This represents a net cash dividend of full TRY 0.294870 (equivalent to full $0.239420 in full as at 30 September 2008). Dividend distribution was approved at ordinary General Assembly meeting dated 25 April 2008 and dividend distribution was started on 20 May 2008.

| | 2008 TRY | USD* | 2007 TRY | USD* |
|---|---|---|---|---|
| Cash dividends | 648,714 | 502,334 | 567,040 | 411,913 |

*USD equivalents of dividends are computed by using the Central Bank of Turkey s TRY/USD exchange rate on 25 April 2008 and 23 March 2007, which are the dates that the General Assembly of Shareholders approved the dividend distribution.

On 3 March 2008, Board of Directors of Inteltek decided to distribute dividends amounting to TRY 152,733 (equivalent to $124,012 and $121,419 as at 30 September 2008 and 28 March 2008, respectively). Dividend distribution was approved at ordinary General Assembly meeting dated 28 March 2008 and dividend distribution was started on 15 April 2008.

**23. Earnings per share**

The calculation of basic and diluted earnings per share as at 30 September 2008 were based on the profit attributable to ordinary shareholders for the nine and three months ended 30 September 2008 and 2007 of $1,517,027, $946,957, $603,791 and $401,188 respectively and a weighted average number of shares outstanding during the six and three months ended 30 September 2008 and 2007 of 2,200,000,000 calculated as follows:

| | Nine months ended | | Three months ended | |
|---|---|---|---|---|
| | 30 September 2008 | 2007 | 30 September 2008 | 2007 |
| Numerator: | | | | |
| Net profit for the period | 1,517,027 | 946,957 | 603,791 | 401,188 |
| Denominator: | | | | |
| Weighted average number of shares | 2,200,000,000 | 2,200,000,000 | 2,200,000,000 | 2,200,000,000 |
| Basic and diluted earnings per share | 0.689558 | 0.430435 | 0.274451 | 0.182358 |

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## 24. Other non-current liabilities

| | 30 September 2008 |
|---|---|
| Consideration payable in relation to acquisition of BeST | 240,384 |
| Financial liability in relation to put option | 131,349 |
| Other non-current liabilities | 760 |
| | 372,493 |

Consideration payable in relation to acquisition of BeST represents present value of deferred payments to the seller. Total deferred payment amounts to $300,000, of which $200,000 will be paid in two equal installments on 31 December 2009 and 31 December 2010. Payment of the remaining $100,000 is contingent on financial performance of BeST, and based on managements estimations, expected to be paid during the first quarter of 2015 (note 8).

Minority shareholder in BeST was granted a put option, giving the shareholders the right to sell its entire stake to Beltel at fair value during a specified period (note 8). The Group accounted for the present value of the estimated option redemption amount as a provision and derecognized the minority interest.

## 25. Loans and borrowings

This note provides information about the contractual terms of the Group s interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group s exposure to interest rate, foreign currency and liquidity risk and payment schedule for interest bearing loans, see note 30.

| | 30 September 2008 | 31 December 2007 |
|---|---|---|
| **Non-current liabilities** | | |
| Unsecured bank loans | 151,003 | 140,404 |
| | 151,003 | 140,404 |
| **Current liabilities** | | |
| Current portion of unsecured bank loans | 557,038 | - |
| Unsecured bank facility | 30,287 | 494,098 |
| Current portion of secured bank loans | - | 125,388 |
| Current portion of finance lease liabilities | - | 69 |
| | 587,325 | 619,555 |

Significant portion of the loans are borrowed by Financell.

The EUR denominated loan with carrying amount of $125,388 as at 31 December 2007, whose maturity was June 2008, was paid before its maturity on 24 January 2008.

As at 30 September 2008, the Group is not subject to any financial covenants or ratios with respect to its borrowings.

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**25. Loans and borrowings (continued)**

Terms and conditions of outstanding loans are as follows:

| | | | | 30 September 2008 | | | 31 December 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Currency** | **Year of maturity** | **Interest rate type** | **Nominal interest rate** | **Face value** | **Carrying amount** | **Nominal interest rate** | **Face value** | **Carrying amount** |
| Unsecured bank loans | USD | 2009 | Floating | Libor+1.25% | 534,000 | 538,962 | - | - | - |
| Unsecured bank loans | USD | 2012 | Floating | Libor+2.3% | 145,698 | 148,497 | Libor+2.3% | 140,226 | 140,365 |
| Unsecured bank loans | BYR | 2020 | Floating | RR+2% | 13,671 | 14,213 | - | - | - |
| Unsecured bank loans | USD | 2009 | Floating | Libor+0.6% - 1.25% | 13,000 | 13,017 | - | - | - |
| Unsecured bank loans | EUR | 2008 | Floating | Euribor+0.7% | 11,678 | 11,766 | Euribor+0.7% | 23,494 | 23,571 |
| Unsecured bank loans | BYR | 2010 | Floating | ½ RR* | 6,091 | 6,350 | - | - | - |
| Unsecured bank loans | USD | 2008 | Floating | Libor+0.6% | 5,500 | 5,501 | Libor+0.6% | 20,500 | 20,686 |
| Unsecured bank loans | USD | 2008 | Floating | - | - | - | Libor+0.6%-0.8% | 449,000 | 449,423 |
| Secured bank loans** | EUR | 2008 | Floating | - | - | - | Euribor+0.8% | 117,469 | 125,388 |
| Other unsecured bank loans | | | | - | - | 22 | - | - | 457 |
| Finance lease liabilities | USD | 2008 | Fixed | - | - | - | 8.0% | 58 | 69 |
| | | | | | 729,638 | 738,328 | | 750,747 | 759,959 |

* Refinancing rate of the National Bank of the Republic of Belarus.

** Guarantee of the bank loan is restricted cash deposited at banks amounted to $125,304, which was released on 24 January 2008 due to loan repayment b

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## 26. Employee benefits

International Accounting Standard No. 19 ( IAS 19 ) *Employee Benefits* requires actuarial valuation methods to be developed to estimate the enterprise s obligation under defined benefit plans. The liability for this retirement pay obligation is recorded in the accompanying consolidated interim financial statements at its present value using a discount rate of 5.7%.

Movement in the reserve for employee termination benefits as at 30 September 2008 is as follows:

| | **2008** |
|---|---|
| Balance at 1 January 2008 | 27,229 |
| Provision set during the period | 6,057 |
| Payments made during the period | (2,199) |
| Unwind of discount | 1,449 |
| Effect of change in foreign exchange rate | (1,576) |
| Balance at 30 September 2008 | 30,960 |

Obligations for contributions to defined contribution plans are recognized as an expense in the consolidated interim income statement as incurred. The Group incurred $3,425, $900, $973 and $327 in relation to defined contribution retirement plan for the nine and three months ended 30 September 2008 and 2007, respectively.

## 27. Deferred income

Deferred income is mainly consists of counters sold but not used by prepaid subscribers and it is classified as current as of the reporting date. The amount of deferred income is $333,220 as at 30 September 2008 and $324,815 as at 31 December 2007, respectively.

## 28. Provisions

| | **Legal** | **Bonus** | **Total** |
|---|---|---|---|
| Balance at 1 January 2008 | 25,894 | 45,240 | 71,134 |
| Provision made during the period | 19,540 | 34,793 | 54,333 |
| Provisions used during the period | (19,540) | (43,575) | (63,115) |
| Unwind of discount | - | (966) | (966) |
| Effect of change in foreign exchange rate | (1,407) | (2,298) | (3,705) |
| Balance at 30 September 2008 | 24,487 | 33,194 | 57,681 |

In note 33, under legal proceedings section, detailed explanations are given with respect to legal provisions in the captions under Disputes on Turk Telekom Transmission Lines Leases and Dispute on Special Communication Taxation Regarding Prepaid Card Sales .

The bonus provision totalling to $33,194 comprises only the provision for the nine months ended 30 September 2008 and is planned to be paid in March 2009.

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## 29. Trade and other payables

The breakdown of trade and other payables as at 30 September 2008 and 31 December 2007 is as follows:

| | **30 September 2008** | **31 December 2007** |
|---|---|---|
| Taxes and withholdings payable | 277,457 | 258,566 |
| Payables to other suppliers | 155,614 | 195,624 |
| Selling and marketing expense accrual | 81,520 | 48,705 |
| Interconnection accrual | 80,078 | 8,256 |
| Roaming expense accrual | 69,955 | 39,637 |
| Payables to Ericsson companies | 47,077 | 85,689 |
| License fee accrual | 42,577 | 41,196 |
| Telecommunications Authority share accrual | 15,229 | 21,979 |
| Interconnection payables | 14,592 | 7,284 |
| Deposits and guarantees taken from agents | 8,437 | 8,295 |
| Maintenance expense accrual | 3,770 | 2,228 |
| Payables to Turkish Republic of Northern Cyprus Tax Office | - | 3,000 |
| Other | 50,400 | 38,560 |
| | 846,706 | 759,019 |

Taxes and withholdings include VAT payable, special communications tax, frequency usage fees payable to Telecommunications Authority and personnel income taxes.

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

Selling and marketing expense accrual is mainly resulted from services received from third parties related to marketing activities of the Company which are not yet invoiced.

Interconnection accrual represents net balance of uninvoiced call termination services received from other operators and interconnection services rendered to other operators.

Payables to Ericsson companies comprise due to Ericsson Turkey, Ericsson Sweden and Ericsson AB arising from fixed asset purchases, site preparation and other services.

In accordance with the license agreement, Turkcell pays 90% of the ongoing license fee, which equals to the 15% of its gross revenue, to the Turkish Treasury and 10% as universal service fund to the Turkish Ministry.

Payables to interconnection suppliers arise from voice and SMS termination services rendered by other GSM operators.

The Group s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

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## 30. Financial instruments

### Credit risk

**Exposure to credit risk:**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Note | 30 September 2008 | 31 December 2007 |
|---|---|---|---|
| Due from related parties-non current | 34 | 52,104 | 68,871 |
| Other non-current assets | 17 | 11,195 | 7,671 |
| Available-for-sale financial assets | 16 | 54,987 | 28,218 |
| Option contracts | 16 | 3,018 | - |
| Due from related parties-current | 34 | 76,511 | 52,482 |
| Trade receivables and accrued income | 19 | 732,998 | 558,563 |
| Other current assets | 20 | 31,026 | 169,378 |
| Cash and cash equivalents | 21 | 3,156,596 | 3,095,095 |
| Assets classified as held for sale | 7 | 13,078 | - |
| | | 4,131,513 | 3,980,278 |

The maximum exposure to credit risk for trade receivables arising from sales transactions including those classified as due from related parties at the reporting date by type of customer is:

| | 30 September 2008 | 31 December 2007 |
|---|---|---|
| Receivable from subscribers | 518,656 | 443,705 |
| Receivables from distributors and other operators | 222,430 | 137,363 |
| Other | 14,146 | 10,577 |
| | 755,232 | 591,645 |

### Impairment losses

The movement in the allowance for impairment in respect of trade receivables as at 30 September 2008 and 31 December 2007 is as follows:

| | 30 September 2008 | 31 December 2007 |
|---|---|---|
| Opening balance | 181,746 | 133,615 |
| Impairment loss recognised | 48,645 | 35,142 |
| Write-off | (1,238) | (16,876) |
| Effect of change in foreign exchange rate | (10,690) | 29,865 |

| | | |
|---|---|---|
| Closing balance | 218,463 | 181,746 |

The impairment loss recognised of $48,645 for the nine months ended 30 September 2008 relates to its estimate of incurred losses in respect of trade receivables.

The allowance accounts in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the trade receivable directly.

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**30. Financial instruments (continued)**

**Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | **30 September 2008** | | | | | | | **31 December 2007** | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years | **Carrying amount** | Contractual cash flows | 6 months or less |
| **Non-derivative financial Liabilities** | | | | | | | | | | |
| Secured bank loans | - | - | - | - | - | - | - | 125,388 | (127,950) | (127,950) |
| Unsecured bank loans | 738,328 | (811,204) | (44,796) | (560,180) | (14,244) | (181,408) | (10,576) | 634,502 | (710,339) | (479,020) |
| Finance lease liabilities | - | - | - | - | - | - | - | 69 | (69) | (69) |
| Trade and other payables | 842,715 | (853,212) | (853,212) | - | - | - | - | 758,223 | (767,125) | (767,125) |
| Bank overdraft | 82,565 | (82,565) | (82,565) | - | - | - | - | 2,125 | (2,125) | (2,125) |
| Due to related parties | 11,014 | (11,218) | (11,218) | - | - | - | - | 17,978 | (18,362) | (18,362) |
| Consideration payable in relation to acquisition of BeST | 240,384 | (300,000) | - | - | (100,000) | (100,000) | (100,000) | - | - | - |
| Financial liability in relation to put option | 131,349 | (316,605) | - | - | - | (316,605) | - | - | - | - |
| Liabilities classified as held for sale | 5,500 | (5,500) | (5,500) | - | - | - | - | - | - | - |
| **Derivative financial Liabilities** | | | | | | | | | | |
| Option contracts | 3,235 | (3,235) | (3,235) | - | - | - | - | - | - | - |
| **TOTAL** | **2,055,090** | **(2,383,539)** | **(1,000,526)** | **(560,180)** | **(114,244)** | **(598,013)** | **(110,576)** | **1,538,285** | **(1,625,970)** | **(1,394,65** |

Current cash debt coverage ratio as at 30 September 2008 and 31 December 2007 is as follows:

| | **30 September 2008** | **31 December 2007** |
|---|---|---|
| Cash and cash equivalents | 3,156,807 | 3,095,300 |
| Current liabilities | 2,095,842 | 2,237,820 |
| Current cash debt coverage ratio | 151% | 138% |

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**30. Financial instruments (continued)**

**Exposure to currency risk**

The Group s exposure to foreign currency risk based on notional amounts is as follows:

| | **31 December 2007** | | |
|---|---|---|---|
| | **USD** | **EUR** | **SEK** |
| **Foreign currency denominated assets** | | | |
| Due from related parties-non current | 68,871 | 770 | - |
| Other non-current assets | 5 | 2,136 | - |
| Other investments, including derivatives | 27,920 | 203 | - |
| Due from related parties-current | 6,681 | 97 | - |
| Trade receivables and accrued income | 31,710 | 2,839 | 10 |
| Other current assets | 4,595 | 949 | 3 |
| Cash and cash equivalents | 1,806,527 | 88,416 | 5,901 |
| | 1,946,309 | 95,410 | 5,914 |
| **Foreign currency denominated liabilities** | | | |
| Loans and borrowings-non current | (140,226) | - | - |
| Loans and borrowings-current | (469,500) | (96,000) | - |
| Trade and other payables | (74,706) | (43,799) | (198,919) |
| Due to related parties | (546) | (700) | - |
| | (684,978) | (140,499) | (198,919) |
| **Net exposure** | 1,261,331 | (45,089) | (193,005) |

| | **30 September 2008** | | |
|---|---|---|---|
| | **USD** | **EUR** | **SEK** |
| **Foreign currency denominated assets** | | | |
| Due from related parties-non current | 51,968 | - | - |
| Other investments, including derivatives | 407 | 206 | - |
| Due from related parties-current | 24,127 | 13 | - |
| Trade receivables and accrued income | 83,479 | 9,244 | 10 |
| Other current assets | 1,514 | 668 | 2 |
| Cash and cash equivalents | 827,200 | 362,913 | 3,337 |
| | 988,695 | 373,044 | 3,349 |
| **Foreign currency denominated liabilities** | | | |
| Loans and borrowings-non current | (145,698) | - | - |
| Other non-current liabilities | (194,107) | - | - |
| Loans and borrowings-current | (467,500) | (8,000) | - |
| Trade and other payables | (67,333) | (100,982) | (1,230) |
| Due to related parties | (3,452) | (5,049) | - |
| | (878,090) | (114,031) | (1,230) |
| **Gross balance sheet exposure** | 110,605 | 259,013 | 2,119 |
| Option contracts-inflow | 150,000 | - | - |
| Option contracts-outflow | (150,000) | - | - |
| **Net exposure** | 110,605 | 259,013 | 2,119 |

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**30. Financial instruments (continued)**

**Exposure to currency risk (continued)**

The following significant exchange rates are applied during the period:

| | Average Rate 30 September 2008 | 31 December 2007 | Reporting Date Closing Rate 30 September 2008 | 31 December 2007 |
|---|---|---|---|---|
| USD | 1.2102 | 1.3031 | 1.2316 | 1.1647 |
| EUR | 1.8497 | 1.7827 | 1.7978 | 1.7102 |
| SEK | 0.1953 | 0.1918 | 0.1847 | 0.1798 |

**Sensitivity analysis**

The basis for the sensitivity analysis to measure foreign exchange risk is an aggregate corporate-level currency exposure. The aggregate foreign exchange exposure is composed of all assets and liabilities denominated in foreign currencies, both short-term and long-term purchase contracts. The analysis excludes net foreign currency investments. Changes in the fair values of forward contracts and currency options are also included in the sensitivity analysis if any; however, offsetting changes in the valuation of the underlying transaction are not included.

10% strengthening of the New Turkish Lira against the following currencies as at 30 September 2008 and 31 December 2007 would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Profit or loss 30 September 2008 | 31 December 2007 |
|---|---|---|
| USD | (11,060) | (126,133) |
| EUR | (37,809) | 6,621 |
| SEK | (32) | 2,980 |

10% weakening of the New Turkish Lira against the following currencies as at 30 September 2008 and 31 December 2007 would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Profit or loss 30 September 2008 | 31 December 2007 |
|---|---|---|

| | | |
|---|---|---|
| USD | 11,060 | 126,133 |
| EUR | 37,809 | (6,621) |
| SEK | 32 | (2,980) |

**TURKCELL ILETISIM HIZMETLERI AS AND ITS SUBSIDIARIES**

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**30. Financial instruments (continued)**

**Sensitivity Analysis (continued)**

**Interest rate risk**

**Effective interest rates and repricing analysis:**

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates as at 30 September 2008 and 31 December 2007 in which they mature or, if earlier, reprice.

| | | **30 September 2008** | | **31 December 2007** | |
|---|---|---|---|---|---|
| | **Note** | **Effective Interest Rate** | **Carrying amount** | **Effective interest rate** | **Carrying amount** |
| **Fixed rate instruments** | | | | | |
| Time deposits | 21 | | | | |
| USD | | 4.2% | 846,489 | 5.7% | 1,788,951 |
| EUR | | 5.7% | 549,045 | 5.8% | 132,758 |
| TRY | | 21.9% | 1,451,508 | 19.5% | 985,766 |
| Other | | 5.2% | 500 | - | 880 |
| Restricted cash | 20 | - | - | 4.3% | 125,304 |
| Available-for-sale securities | 16 | | | | |
| Gov. bonds, treasury bills | | | | | |
| TRY | | 19.3% | 54,280 | - | - |
| Finance lease obligations | 25 | - | - | 8.3% | (69) |
| Assets classified as held for sale | 7 | | | | |
| TRY | | 21.8% | 10,763 | - | - |
| USD | | 4.7% | 143 | - | - |
| **Variable rate instruments** | | | | | |
| Available-for-sale securities | 16 | | | | |
| Foreign inv. equity funds | | - | - | * | 26,480 |
| Gov. bonds, treasury bills | | | | | |
| USD | | 6.6% | 407 | 6.5% | 1,440 |
| EUR | | 5.1% | 300 | 4.7% | 298 |
| Secured bank loans | 25 | | | | |
| EUR floating rate loans | | - | - | 4.4% | (125,388) |
| Unsecured bank loans | 25 | | | | |
| USD floating rate loans | | 5.7% | (705,977) | 6.7% | (610,474) |
| EUR floating rate loans | | 5.4% | (11,766) | 5.3% | (23,571) |
| BYR floating rate loans | | 7.9% | (20,563) | - | - |
| Other | | - | (22) | - | (457) |

* Effective interest rate is not calculated for foreign investment equity funds since they have no coupon payments.

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**30. Financial instruments (continued)**

**Sensitivity Analysis (continued)**

**Interest rate risk (continued)**

**Fair value sensitivity analysis for fixed rate instruments:**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 1% in interest rates would have increased/(decreased) equity by $888.

**Cash flow sensitivity analysis for variable rate instruments:**

A change of 1% in interest rates as at 30 September 2008 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as at 30 September 2008 and 31 December 2007.

| | **Profit or loss** | | **Equity** | |
|---|---|---|---|---|
| | **1% increase** | **1% decrease** | **1% increase** | **1% decrease** |
| **30 September 2008** | | | | |
| Variable rate instruments | (5,434) | 5,434 | 17 | (17) |
| Cash flow sensitivity (net) | (5,434) | 5,434 | 17 | (17) |
| **31 December 2007** | | | | |
| Variable rate instruments | (4,898) | 4,898 | 32 | (32) |
| Cash flow sensitivity (net) | (4,898) | 4,898 | 32 | (32) |

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## 30. Financial instruments (continued)

**Fair values**

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

| | | 30 September 2008 | | 31 December 2007 | |
|---|---|---|---|---|---|
| | **Note** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| **Financial assets** | | | | | |
| Due from related parties-non current | 34 | 52,104 | 52,104 | 68,871 | 68,871 |
| Other non-current assets* | 17 | 11,195 | 11,195 | 7,671 | 7,671 |
| Available-for-sale securities | 16 | 54,987 | 54,987 | 28,218 | 28,218 |
| Option contracts | 16 | 3,018 | 3,018 | - | - |
| Due from related parties-current | 34 | 76,511 | 76,511 | 52,482 | 52,482 |
| Trade receivables and accrued income | 19 | 732,998 | 732,998 | 558,563 | 558,563 |
| Other current assets* | 20 | 31,026 | 31,026 | 169,378 | 169,378 |
| Cash and cash equivalents | 21 | 3,156,807 | 3,156,807 | 3,095,300 | 3,095,300 |
| Assets classified as held for sale | 7 | 13,080 | 13,080 | - | - |
| **Financial liabilities** | | | | | |
| Loans and borrowings non current | 25 | (151,003) | (151,003) | (140,404) | (140,404) |
| Consideration payable in relation to acquisition of BeST | 24 | (240,384) | (240,384) | - | - |
| Financial liability in relation to put option | 24 | (131,349) | (131,349) | - | - |
| Option contracts | 29 | (3,235) | (3,235) | - | - |
| Bank overdrafts | 21 | (82,565) | (82,565) | (2,125) | (2,125) |
| Loans and borrowings current | 25 | (587,325) | (587,325) | (619,555) | (619,555) |
| Trade and other payables | 29 | (842,715) | (842,715) | (758,223) | (758,223) |
| Due to related parties | 34 | (11,014) | (11,014) | (17,978) | (17,978) |
| Liabilities classified as held for sale | 7 | (5,500) | (5,500) | - | - |
| | | 2,076,636 | 2,076,636 | 2,442,198 | 2,442,198 |
| Unrecognized gain | | | - | | - |

* Non-financial instruments such as prepaid expenses and advances given are excluded from other current assets and other non-current assets.

The methods used in determining the fair values of financial instruments are discussed in note 4.

## 31. Operating leases

The Company entered into various operating lease agreements. For the nine and three months ended 30 September 2008 and 2007, total rent expenses for operating leases are $206,207, $141,607, $80,237 and $50,494, respectively.

## 32. Guarantees and purchase obligations

As at 30 September 2008, outstanding purchase commitments with respect to the acquisition of property, plant and equipment, inventory and purchase of sponsorship and advertisement services amount to $417,617 (31 December 2007: $139,540).

As at 30 September 2008, the Group is contingently liable in respect of bank letters of guarantee obtained from banks given to customs authorities, private companies and other public organizations amounting to TRY 314,494 (equivalent to $255,354 as at 30 September 2008) (31 December 2007: TRY 243,267 equivalent to $208,867 as at 31 December 2007).

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## 33. Contingencies

**License Agreements**

***Turkcell:***

On 27 April 1998, the Company signed the License Agreement with the Turkish Ministry. In accordance with the License Agreement, the Company was granted a 25 year GSM license for a license fee of $500,000. The License Agreement permits the Company to operate as a stand-alone GSM operator. Under the License, the Company collects all of the revenue generated from the operations of its GSM network and pays the Turkish Treasury and Turkish Ministry an ongoing license fee and universal service fund, respectively, equal to 15% of its gross revenues from Turkish GSM operations. The Company 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.

In February 2002, the Company renewed its License with the Telecommunications Authority, and became subject to a number of new requirements, including those regarding the build-out, operation, quality and coverage of the Company's GSM network, prohibitions on anti-competitive behavior and compliance with national and international GSM standards. Failure to meet any requirement in the renewed License, or the occurrence of extraordinary unforeseen circumstances, can also result in revocation of the renewed License, including the surrender of the GSM network without compensation, or limitation of the Company's rights thereunder, or could otherwise adversely affect the Company's regulatory status. Certain conditions of the renewed License Agreement include the following:

**Coverage:** The Company had to attain geographical coverage of 50% and 90% of the population of Turkey with certain exceptions within three years and five years, respectively, of the License's effective date.

**Service offerings:** The Company must provide certain services in addition to general GSM services, including free emergency calls and technical assistance for subscribers, free call forwarding to police and other public emergency services, receiver-optional short messages, video text access, fax capability, calling and connected number identification and restrictions, call forwarding, call waiting, call hold, multi-party and third-party conference calls, billing information and barring of a range of outgoing and incoming calls.

**Service quality:** In general, the Company must meet all the technical standards determined and updated by the European Telecommunications Standards Institute and Secretariat of the GSM MoU. Service quality requirements include that call blockage cannot exceed 5% and unsuccessful calls cannot exceed 2%.

**Tariffs:** Telecommunications Authority sets the initial maximum tariffs in TRY and USD. Thereafter, the revised License provides that the Telecommunications Authority will adjust the maximum tariffs at most every six months or, if necessary, more frequently. The Company is free to set its own tariffs up to the maximum tariffs.

**Rights of the Telecommunications Authority, Suspension and Termination:**

The revised License is not transferable without the approval of the Telecommunications Authority. In addition, the License Agreement gives the Telecommunications Authority certain monitoring rights and access to the Company s technical and financial information and allows for inspection rights, and gives certain rights to suspend operations under certain circumstances. Also, the Company is obliged to submit financial statements, contracts and investment plans to the Telecommunications Authority.

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**33. Contingencies (continued)**

**Rights of the Telecommunications Authority, Suspension and Termination: (continued)**

The Telecommunications Authority may suspend the Company s operations for a limited or an unlimited period if necessary for the purpose of public security and national defense. During period of suspension, the Telecommunications Authority may operate the Company s GSM network.

The Company is entitled to any revenues collected during such period and the Licensee's term will be extended by the period of any suspension. The revised License may also be terminated upon a bankruptcy ruling against the Company or for other license violations, such as operating outside of its allocated frequency ranges, and the penalties for such violations can include fines, loss of frequency rights, revocation of the license and confiscation of the network management centre, the gateway exchanges and central subscription system, including related technical equipment, immovables and installations essential for the operation of the network.

Based on the enacted law on 3 July 2005 with respect to the regulation of privatization, gross revenue description based for the calculation of ongoing license fee and universal service fund has been changed. According to this new regulation, interest charges for late collections, and indirect taxes such as VAT, and other expenses are excluded from the description of gross revenue. Calculation of gross revenue for ongoing license fee and universal service fund according to the new regulation is effective after Danistay s approval on 10 March 2006.

***BeST:***

BeST owns a licence issued on 18 March 2005 for a period of 10 years and is valid till 18 March 2015. Based on the SPA dated 29 July 2008 between the State Committee on Property of the Republic of Belarus ( the seller ), Beltel and the Company, the seller granted an extention on the licence to render standard GSM services until 26 August 2018. Besides, the licence shall be extended for an additional ten years and the seller shall provide relevant official documents for such evidency authorization until 31 December 2009.

Under its licence, BeST has several coverage requirements to increase its geographical coverage gradually starting from the date of the licence until 2017. However, BeST s period of execution in relation to coverage requirements are extended for three years starting from the acquisition date.

***Astelit:***

Astelit owns two GSM activity licenses, one is for GSM 900, one is for DCS 1800. As at 30 September 2008, Astelit owns eighteen GSM 900, DCS 1800, D-AMPS and Radiorelay frequency licenses which are regional or national. In addition to the above GSM licenses, Astelit owns four licenses for local fixed line phone connection with wireless access using D-AMPS standard.

According to licenses, Astelit should adhere to state sanitary regulations to ensure that equipment used does not injure the population by means of harmful electro-magnetic emissions. Licenses require Astelit to inform authorities about start/end of operations in three months; about changes in incorporation address in 10 days. Also, Astelit must present all the required documents for inspection by Ukrainian Telecommunications Authority at their request. The Ukrainian Telecommunications Authority may suspend the operations of Astelit for a limited or an unlimited period if necessary because of the expiration of licenses, upon mutual consent, or in case of violation of terms of radio frequencies use. If such a violation is determined, Ukrainian Telecommunications Authority notifies Astelit of provisions violated and sets deadline for recovery. If the deadline is not met, licenses may be terminated.

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**33. Contingencies (continued)**

**Rights of the Telecommunications Authority, Suspension and Termination: (continued)**

***Tellcom:***

Tellcom acquired Long Distance Traffic Carrying Services License, Data Transmission Overland License, Infrastructure License and Internet Service Provider License. Long Distance Traffic Carrying Services License is valid for 15 years and the remaining licenses are valid for 25 years.

***Inteltek:***

Inteltek signed a contract on 30 July 2002 which provides for the installation, support and operation of an on-line central betting system as well as maintenance and support for the provision of football betting games. The Central Betting System Contract was scheduled to expire on 30 March 2008.

Inteltek signed another contract with Genclik ve Spor Genel Mudurlugu ( GSGM ) on 2 October 2003 which authorized Inteltek to establish and operate a risk management center and become head agent for fixed odds betting. The Fixed Odds Betting Contract was scheduled to expire in October 2011. However, in relation to the lawsuits related to the operations of Inteltek, GSGM ceased the implementation of the Fixed Odds Betting Contract starting from March 2007. Following this annulment decision, Spor Toto and Inteltek signed a new Fixed Odds Betting Contract on 15 March 2007, with less-advantageous conditions compared to previous contract signed in 2003, that expired on 1 March 2008.

On 27 February 2008, the Turkish parliament passed a new law (No. 5738) that allowed Spor Toto to sign a new Fixed Odds Betting Contract with Inteltek, at the same terms and conditions with the latest contracts signed with Spor Toto (contract signed as per Provisional Article 1 of Law No. 5583) which would be valid for up to one year, until operations start under the new tender, which Spor Toto is allowed to hold in accordance with the same law. As per Provisional Article 1 of law No. 5738, Inteltek signed a new Fixed Odds Betting Contract with Spor Toto, which took effect on 1 March 2008. At the same time, Inteltek signed a new Central Betting System Contract with Spor Toto, which took effect on 31 March 2008 as having the same conditions with the current contract but to be valid for one year utmost until the operation started as a result of the new tender.

On 28 August 2008, Spor Toto conducted a tender which allowed private companies to organize fixed odds and paramutual betting in sports games. Inteltek, gave the best offer with 1.4% for the tender. On 29 August 2008, Inteltek signed a contract with Spor Toto, receiving the rights to run the sport betting business for the next ten years. New commission rate will be applicable starting from March 2009.

***Kibris Telekom:***

On 27 April 2007, Kibris Telekom signed the License Agreement for Installation and Operation of a Digital, Cellular, Mobile Telecommunication System ( Mobile Communication License Agreement ) with the Ministry of Communications and Works of the Turkish Republic of Northern Cyprus which is effective from 1 August 2007, replacing the existing GSM-Mobile Telephony System Agreement dated 25 March 1999. In accordance with the Mobile Communication License Agreement, Kibris Telekom was granted an 18 year GSM 900, GSM 1800 and IMT 2000/UMTS license for GSM 900, GSM 1800 frequencies while the usage of IMT 2000/UMTS frequency bands is subject to the fulfilment of certain conditions.

On 14 March 2008, Kibris Telekom was awarded a 3G infrastructure license at a cost of $10,000 including VAT, which was paid at the end of March 2008. Under the terms of the license, the system had to be operational by mid-October 2008.