



ALARKO HOLDİNG A.Ş.

## ANNUAL REPORT 2005

May 16th, 2006  
General Assembly Meeting  
2005 Fiscal Year

Registered Capital  
TL 25.000.000.000.000.- (TRY 25.000.000.-)

Issued Capital  
TL 16.080.000.000.000.- (TRY 16.080.000.-)

### ALARKO CENTER

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Phone: (90 212) 310 33 00 - 227 52 00 Pbx  
Fax: (90 212) 260 71 78 - 227 04 27  
web: [www.alarko.com.tr](http://www.alarko.com.tr)  
e-mail: [info@alarko.com.tr](mailto:info@alarko.com.tr)

### ADANA BRANCH

Ziyapaşa Bulvarı Çelik Apt. No: 19/5-6 Kat: 1  
01130 Adana/Türkiye  
Phone: (90 322) 457 62 23 Pbx  
Fax: (90 322) 453 05 84

### ANKARA BRANCH

Sedat Simavi Sokak No: 48  
06550 Çankaya, Ankara/Türkiye  
Phone: (90 312) 440 79 10 Pbx  
Fax: (90 312) 440 79 30

### ANTALYA OFFICE

Metin Kasapoğlu Cad.  
Küçük Kaya Sitesi A Blok No: 7 Kat: 2  
07160 Antalya/Türkiye  
Phone (90 242) 322 00 29 - 322 66 64 Pbx  
Fax: (90 242) 322 87 66

### İZMİR BRANCH

Şehit Fethi Bey Cad. No: 55 Kat: 13  
35210 Pasaport, İzmir/Türkiye  
Phone: (90 232) 483 25 60 Pbx  
Fax: (90 232) 441 55 13

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## MESSAGE FROM THE CHAIRMAN

Esteemed Shareholders,

The new cover of the Annual Report you have received today must have attracted your attention.

There are messages on the cover. Üzeyir Garih is sending us messages. Though he left us five years ago, he is with us today...

I suggest you read the messages carefully. They express positive, constructive ideas.

I would also like to give you comparable messages.

Looking back to 2005, I can recall many instances that have brought us peace of mind and happiness.

First of all, I would like to summarize the positive developments in the macro-economic balances.

The decreasing trend in the inflation rate is continuing, and the Consumer Price Index which was 9,4 % in 2004 has declined to 7,7 %.

Economic growth is maintaining its course and an increase of more than 6 % is expected in the Gross National Product (GNP) in 2005.

Turkey is also persistent in its budgetary discipline. In 2005, the percentage of Surplus Except for Interest to the GNP is expected to be 7,4 %.

The Net Public Debts / GNP ratio is expected to be less than 60 % in 2005 and thus, to be in accordance with the Maastricht Criteria.

The successful privatizations accomplished in 2005 and the serious increase in direct foreign investments are also signs witnessing the important development in the Turkish economy and its integration to the world.

We expect the positive developments observed in the inflation rate, growth and budgetary discipline to continue, the successful privatization trend and increasing foreign investments to be maintained in 2006.

I will not go into the positive results attained by the companies within Alarko Holding as you will find them in the following pages of this report.

Before ending my message, I would like to repeat the final sentence of our last year's report.

"The most important problem that Ankara must handle and solve rapidly is that of unemployment."

Yes, economy is going well...

However, unemployment is increasing, waiting for an urgent solution. We must intensify our efforts on this issue. We greet you all respectfully,



İshak Alaton  
Chairman

# BOARD OF DIRECTORS



**İshak ALATON**  
Chairman  
(18.05.2005-16.05.2006)



**İzzet GARİH**  
Vice Chairman  
(18.05.2005-16.05.2006)



**Vedat A. ALATON**  
Vice Chairman  
(18.05.2005-16.05.2006)



**Ayhan YAVRUCU**  
Director  
Chief Executive Officer  
(18.05.2005-16.05.2006)

## **Prof. Dr. Ahmet Zeyyat HATİPOĞLU**

Auditor  
(18.5.2005-16.05.2006)

## **Prof. Dr. Mustafa Aydın AYSAN**

Auditor  
(18.5.2005-16.05.2006)

## **Prof. Dr. Halil Kemal KAFALI**

Auditor  
(18.5.2005-16.05.2006)

**BOARD OF  
AUDITORS**



**Güner KOÇEL**

Director

(18.05.2005-16.05.2006)



**Dalia GARİH**

Director

(18.05.2005-16.05.2006)



**Leyla ALATON GÜNYELİ**

Director

(18.05.2005-16.05.2006)



**Işık BİREN**

Director

(18.05.2005-16.05.2006)



**Ahmet Vural AKIŞIK**

Director

(18.05.2005-16.05.2006)

**INDEPENDENT AUDITING COMPANY**

Denet Yeminli Mali Müşavirlik A.Ş.  
**(Member firm of BDO International)**

(18.05.2005-16.05.2006 )

## THE CONTRACTING GROUP

### ALSİM ALARKO SANAYİ TESİSLERİ VE TİCARET A.Ş.

96,78%

ADANA SUBWAY DIVISION

İSTANBUL SUBWAY (YENİKAPI - ŞİŞHANE ELECTRO - MECHANIC SYSTEMS CONSTRUCTION) PROJECT

ASTANA AIRPORT CONSTRUCTION PROJECT

ALSİM ALARKO - OHL - G&O J.V. TCDD ANKARA - ESKİŞEHİR HIGH SPEED TRAIN PROJECT

ALSİM ALARKO - EMİT İZMİT BAY WASTE WATER TREATMENT J.V.

ALSİM ALARKO - ROSNEFTEGAZSTROY MELEN J.V.

TECNIDAS REUNIDAS - ALARKO - AKFEN CONSORTIUM

STREICHER - HAUSTAD & TIMMERMANN- GÜNSAYIL - ALSİM ALARKO SAN. TES. VE TİC. A.Ş. J.V.

THE WESTERN KAZAKHSTAN ROAD NETWORK

ALMATY BISHKEK REGIONAL ROAD REHABILITATION PROJECT

ARZEW DESALINATION AND POWER PLANT PROJECT

ROSTOV CIGARETTE FACTORY CONSTRUCTION PROJECT

KIRIKKALE TÜPRAŞ REFINERY DHP-CCR CONSTRUCTION PROJECT

ALSİM ALARKO-GARANTİ KOZA J.V. İSTANBUL METRO 4.LEVENT - AYAZAĞA ROUTE CONSTRUCTION PROJECT

ASTANA WATER PROJECT

CYPRUS WATER PROJECT ENGINEERING SERVICES

## THE LAND DEVELOPMENT GROUP

### ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

49,32%

### ALDEM ALARKO KONUT İNŞAAT VE TİCARET A.Ş.

96,68%

### YILTAŞ YILDIZ TURİSTİK TESİSLER A.Ş.

67,12%

### AL-RİVA PROJESİ ARAZİ DEĞER., KONUT İNŞ. VE TİC. A.Ş.

40,00%

### AL-RİVA ARAZİ DEĞER., KONUT İNŞ. VE TİC. A.Ş.

40,00%

### AL-RİVA ARAZİ DEĞER., KONUT İNŞ., TURİSTİK TES., GOLF İŞL. VE TİC. A.Ş.

40,00%

### MOSALARCO J.V.

50,00%

AL - KONUT DIVISION

## THE INDUSTRY AND TRADE GROUP

### ALARKO CARRIER SANAYİ VE TİCARET A.Ş.

42,09%

THE MAIN MANUFACTURING PLANT

RADIATOR MANUFACTURING PLANT

İSTANBUL SALES DIVISION

FREE ZONE BRANCH

TOTALINE DIVISION

ANKARA REGIONAL SALES DIVISION

### ALARKO FENNİ MALZEME SATIŞ VE İMALAT A.Ş.

65,55%

### ALMÜT ALARKO SİNİİ GEREÇLER İMALAT VE MÜMESSİLLİK A.Ş.

65,45%

### TÜM TESİSAT VE İNŞAAT A.Ş.

1,40%

### ALAMSAŞ ALARKO AĞIR MAKİNA SAN. A.Ş.

52,97%

## THE TOURISM GROUP

### ATTAŞ ALARKO TURİSTİK TESİSLER A.Ş.

95,01%

HILLSIDE BEACH CLUB

HILLSIDE CITY CLUB

HILLSIDE CITY CLUB - TRIO

CINECITY

CINECITY - TRIO

HILLSIDE SU HOTEL

## THE ENERGY GROUP

### ALTEK ALARKO ELEKTRİK SANTRALLARI TESİS İŞLETME VE TİC. A.Ş.

38,44%

HASANLAR HYDROELECTRIC POWER STATION

BERDAN HYDROELECTRIC POWER STATION

TOHMA HYDROELECTRIC POWER STATION

KIRKLARELİ NATURAL GAS COMBINED CYCLE POWER PLANT

### TEMZET ELEKTRİK ÜRETİM İLETİM A.Ş.

48,39%

## THE SEAFOOD PRODUCTS GROUP

### ALFARM ALARKO LERÖY SU ÜRÜNLERİ SAN. VE TİC. A.Ş.

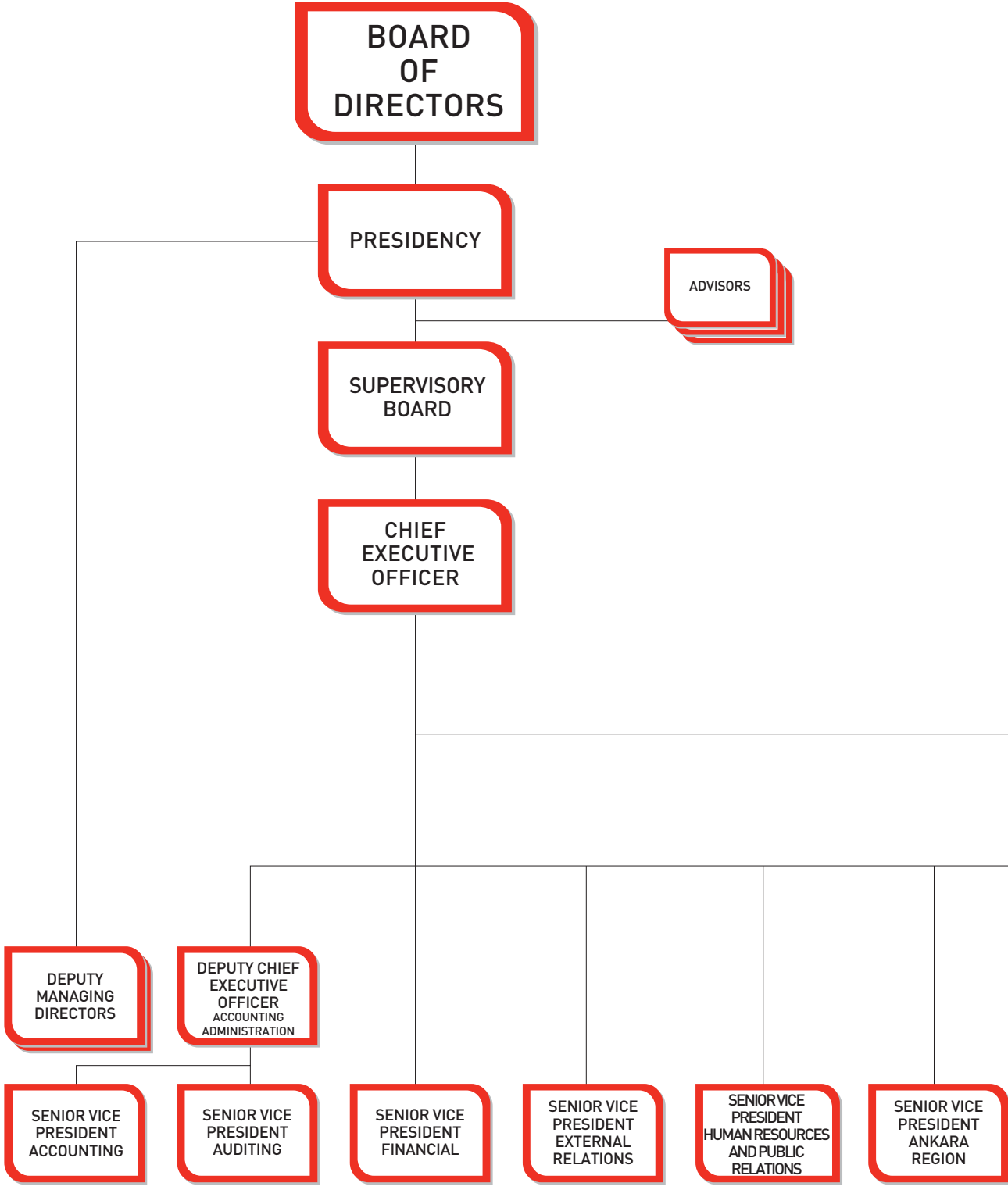
40,96%

PERPA MANAGEMENT & SALES OFFICE

SEAFOOD PRODUCTS FACTORY SUADIYE / İZMİT

ANTALYA SALES OFFICE

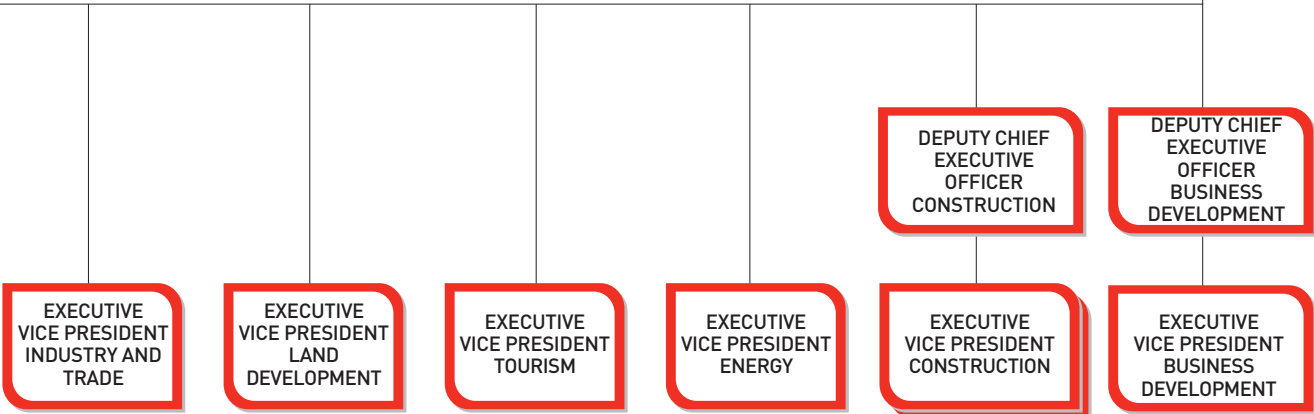
# GENERAL ORGANIZATION





EXECUTIVE  
COMMITTEE

SUBSIDIARIES  
AND  
PARTICIPATIONS



# MANAGEMENT STAFF



## CORPORATE PRESIDENT

İSHAK ALATON

## DEPUTY MANAGING DIRECTORS

İZZET GARIH

VEDAT AKSEL ALATON

## CHIEF EXECUTIVE OFFICER

AYHAN YAVRUCU

## DEPUTY CHIEF EXECUTIVE OFFICERS

M. ALPER KAPTANOĞLU

CONTRACTING - CONSTRUCTION

MESUT ZALOĞLU

ACCOUNTING & ADMINISTRATION

M. TANSU USLU

CONTRACTING - BUSINESS DEVELOPMENT

## SENIOR VICE PRESIDENTS

MEHMET DÖNMEZ

ANKARA REGION

MUSTAFA FİLİZ

ACCOUNTING

OKTAY VARLIER

EXTERNAL RELATIONS

SEYİT M. BURUK

HUMAN RESOURCES & PUBLIC RELATIONS

ÜMİT NURİ YILDIZ

AUDITING

## EXECUTIVE VICE PRESIDENTS

H. ÖNDER ŞAHİN

INDUSTRY & TRADE

EDİP İLKBAHAR

TOURISM

TARHAN GÜNAY

ENERGY

A. ÖNDER KAZAZOĞLU

LAND DEVELOPMENT - CONSTRUCTION

AYKUT BAYCAN

CONTRACTING - ACCOUNTING

BEKİR BORA

CONTRACTING - PROJECT FINANCE & DEVELOPMENT

CELAL TATLICIBAŞI

CONTRACTING - TÜPRAŞ PROJECT

ONAT BİTİK

CONTRACTING - CONSTRUCTION

## VICE PRESIDENTS

A. CEM KOCASOY

CONTRACTING - BUSINESS DEVELOPMENT

B. BÜLENT AKKAN

CONTRACTING - DOMESTIC CONTRACTS

ERGÜN BERKALP

CONTRACTING - SITE AUDITS

F. NEŞE UCAR

CONTRACTING - LOGISTICS

HAKAN KURT

CONTRACTING - CONTRACT MANAGEMENT

HALUK MARTAĞAN

CONTRACTING - PLANNING, ANALYSIS

MEHMET HASİP AKŞİT

CONTRACTING - SAKHALIN LNG PROJECT

MEHMET UĞUR KURUL

CONTRACTING - BUSINESS DEVELOPMENT

MUSTAFA V. GAFUROĞLU

CONTRACTING - SUBWAY PROJECTS

NAİM TÜRKOĞLU

CONTRACTING - ASTANA AIRPORT PROJECT

TİMUR DURMAZ

CONTRACTING - BTC PROJECT

H. ÖZÇELİK ÇATALOĞLU	LAND DEVELOPMENT
HARUN H. MORENO	LAND DEVELOPMENT - ALARKO REAL ESTATE INVESTMENT CO. GENERAL MANAGER
KADİR EKE	LAND DEVELOPMENT - MARKETING, SALES
M. NEZİHİ KARAHASAN	LAND DEVELOPMENT - TECHNICAL
İSMET GENCER	INDUSTRY & TRADE - INDUSTRIAL SALES
ADNAN YAĞMUR	ENERGY

**PROJECT CONTRACT MANAGERS, GENERAL MANAGERS,  
BRANCH MANAGERS, FACTORY MANAGERS, ASSISTANT GENERAL MANAGERS**

A. EROL GÜVENÇ	CONTRACTING - PROJECT CONTRACT MANAGER
AHMET CİBOĞLU	CONTRACTING - PROJECT CONTRACT MANAGER - MOSCOW ONCHOLOGY HOSPITAL PROJECT
M. GÖKHAN GÜVEN	CONTRACTING - PROJECT CONTRACT MANAGER - TÜPRAŞ İZMİT REFINERY PROJECT
S. UFUK TEZER	CONTRACTING - PROJECT CONTRACT MANAGER - ANKARA İSTANBUL RAILWAY PROJECT
S. VELİ MESTA	CONTRACTING - PROJECT CONTRACT MANAGER
ŞAFAK KOLAY	CONTRACTING - PROJECT CONTRACT MANAGER - MELEN WATER SUPPLY PROJECT
TAMER ÖZER	CONTRACTING - PROJECT CONTRACT MANAGER - SAKHALIN LNG PROJECT
TARIK U. BÜYÜKBAY	CONTRACTING - PROJECT CONTRACT MANAGER
YEMLİHA CIRDI	CONTRACTING - PROJECT CONTRACT MANAGER - İZMİT WASTE WATER TREATMENT PROJECT
İ. CEM ÖZKÖK	CONTRACTING - BRANCH MANAGER - BUSINESS DEVELOPMENT - ANKARA OFFICE
R. ERKAN ERKURT	CONTRACTING - BRANCH MANAGER - BUSINESS DEVELOPMENT - ASTANA, KAZAKHSTAN
MURAT ÇOPUR	INDUSTRY & TRADE - FACTORY MANAGER
HALUK FERİZOĞLU	INDUSTRY & TRADE - BRANCH MANAGER - İZMİR
HIRANT KALATAŞ	INDUSTRY & TRADE - BRANCH MANAGER - MARKETING & SUPPORT
İBRAHİM BİNER	INDUSTRY & TRADE - BRANCH MANAGER - İSTANBUL SALES
İBRAHİM GÜRAY	INDUSTRY & TRADE - BRANCH MANAGER - ANKARA
ZEKİ ÖZEN	INDUSTRY & TRADE - BRANCH MANAGER - TOTALINE
ARİF NEZİH YILMAZ	ENERGY - KIRKLARELİ POWER PLANT MANAGER
BÜLENT TOKAN	ENERGY - ASSISTANT GENERAL MANAGER - FINANCIAL & ADMINISTRATION
İSMAİL H. YILDIRIM	ENERGY - H.E.P.P. OPERATIONS MANAGER
LEVENT ÖZMARAL	ENERGY - PROJECT MANAGER
BÜLENT İŞİK	SEAFOOD - GENERAL MANAGER

**ADVISORS**

GÜROL SOYLU	ADVISOR - CONTRACTING & CONSTRUCTION
YUSUF TEZMAN	PRESIDENTIAL ADVISOR - FINANCE

# AGENDA OF THE ORDINARY GENERAL ASSEMBLY

1. Deliberations and decision on the election of the Presiding Committee.
2. Deliberations and decision to authorize the Presiding Committee to sign the minutes of the General Assembly.
3.
  - a) Reading of the Board of Directors' Annual Report of 2005 and the Balance Sheet and Income Statement of 2005.
  - b) Reading of the Statutory Auditors' Report.
  - c) Reading of the Independent Auditors' Report.
  - d) Approval of the 2005 Balance Sheet and Income Statement.
  - e) Deliberations and decision to acquit the Members of the Board of Directors and the Statutory Auditors' fiduciary responsibilities on account of the company's results in 2005.
4. Giving information about donations made by the Company.
5. Deliberations and decision on the proposal of the Board of Directors concerning the distribution of the profits of 2005.
6. Determining the number of Board members for the next operational term, the election of these members in accordance with the provisions of the articles of corporation and deliberations and decision on the salaries to be paid to them.
7. Re-election of the Statutory Auditors whose terms in office have expired or election of new auditors and deliberations and decision concerning the salaries to be paid to them.
8. Deliberations and decision on granting Board members the authority set forth in Articles 334 and 335 of the Turkish Commercial Code.
9. Deliberations and decision concerning the signing of a contract for the auditing of the company's accounts by an independent auditing company selected by the Board of Directors in accordance with the Capital Market Regulations and approval of the draft of the contract.
10. Reading of and discussing the old and revised versions of the articles of corporation, and acceptance of its final text, in accordance with the approval letters received from the Capital Market Board and the Domestic Trade General Management of the Turkish Republic Industry and Trade Ministry, concerning the amendments of the clauses 8, 18, 24, 26, 31, 51, 54 and 56 of the articles of corporation, and deletion of the clauses 13, 16 and 25 from the articles of corporation. Deliberations and decision concerning the approval of the revised text.

Board of Directors

# BOARD OF DIRECTORS' ANNUAL REPORT

Esteemed Shareholders,

The year 2005 has been a generally successful one both for our country and our Group.

Following the economic crisis of 2001, our country entered a rapid economic and social transformation process. This process inevitably brings along some problems. We have to solve them with patience and determination. However, this process will enrich and strengthen our economic and social structure as well as our democracy.

A continuous growth trend has been achieved in the last four years. This should be maintained in the future since this is essential in solving the unemployment issue and in increasing prosperity. Establishing a balance in this context is only possible through economic growth and a balanced distribution of income.

Rapid growth inherently brings some problems to the agenda. It is true that an over-valued TRY causes serious disadvantages in our competitive power. However, we have to solve this without ceding to procedures that will endanger the monetary policies. We have not totally overcome the fragility in the economy yet and structural transformations will continue to be the main issues of concern both in the private and public economic strategies.

The important foreign trade deficit is a phenomenon that should be considered seriously. The insufficiency in internal savings, capacity problems in the production of intermediary goods and the escalation in the import of investment goods are the determinant factors in this deficit. These problems can be overcome by encouraging internal savings and making long term efforts towards structural transformations.

Another important problem on the future agenda is social issues. Creating new employment opportunities for the rapidly growing labor force is closely related with how confident foreign capital feels. Evincing that the improvement observed in the area of investments is durable should be an important objective. The life standard of the lower income groups can be improved by transferring savings to be made in public expenditures to the areas of education and public health.

Moreover, the infrastructure investments should be renewed and improved parallel to the country's development rate and structure so as to avoid bottle necks. Energy is a sine qua none for life in general. One of the most important issues of our rapidly growing economy is that of energy though it does not seem to present a problem nowadays. While the increase in gas and petroleum prices is augmenting our foreign deficit, the price policies applied are preparing the background for an energy supply deficit.

None of these are problems that cannot be overcome. We can overcome them in a planned way and with determination and open new horizons for our economy. We have to read globalization and its results correctly. We must realize that our old learnings are foreign to this new world and that we cannot rule out these new trends in the world.

In the light of the above, our main objective is to shape our Group in a way so as to compete with the world.

# BOARD OF DIRECTORS' ANNUAL REPORT

Our Annual Report has been prepared in accordance with the standards set by the Capital Market Regulations and information regarding our Holding company is given below:

- a)** This Annual Report covers the period between 01.01.2005 and 31.12.2005.
- b)** The terms in office of members of the Board and Statutory Auditors for the year 2005 are given on pages 8 and 9. The financial statements of the operational results obtained by Alarko Holding A.Ş. in 2005 were audited independently by Denet Yeminli Mali Müşavirlik A.Ş. (Member firm of BDO International).
- c)** Our partnership's registered capital ceiling in 2005 was TL 25.000.000.000.000 (TRY 25.000.000).
- d)** Our paid-in capital is TL 16.080.000.000.000 (TRY 16.080.000). Alarko Holding A.Ş.'s consolidated profit before tax in 2005 was TRY 67.867.271.
- e)** Our Annual General Assembly held on 18.05.2005 was attended by 24 of our partners. At the time this report was prepared. Anmak Holding A.Ş.. our only partner with more than 10% of our capital, owned 69,40 % of the shares totaling TL 11.160.295.383.500 (TRY 11.160.295,38). Net dividends of 64,9% of the issued capital and 20% of the total capital were paid for the year 2002. Since consolidated financial statements adjusted for inflation indicated loss in 2003 and 2004, no dividends were distributed to shareholders. The proposal for the distribution of the profit for 2005 submitted by our Board of Directors to the approval of the General Assembly is on page 85 of this report. The value of our shares being traded at the Istanbul Stock Exchange at the time this report was prepared was TRY 59.
- f)** The total amount of donations made by our partnership to various foundations and associations in 2005 was TRY 9.255.
- g)** The following table includes the subsidiaries of our company with their areas of operation, their capitals and the percentage of shares owned as of 31.12.2005.

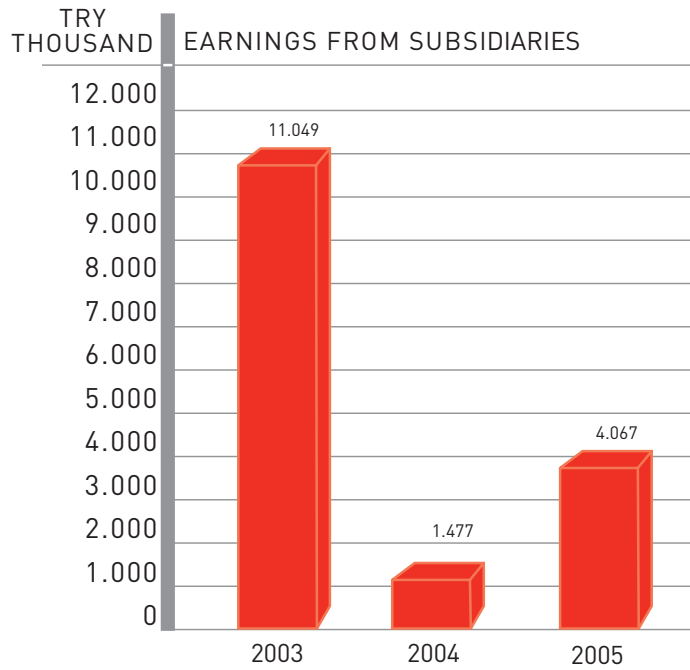
# SUBSIDIARIES AND PARTICIPATIONS

COMPANIES	SECTOR	AUTHORIZED CAPITAL (TRY)	PERCENTAGE SHARE (%)
Alarko Carrier Sanayi ve Ticaret A.Ş.	Production of heating and cooling equipment, manufacturing, contracting, tourism	10.800.000	42,03
Alamsaş Alarko Ağır Makina Sanayii A.Ş.	Production of machines and equipment for industrial investments	500.000	27,93
Alsim Alarko Sanayi Tesisleri ve Ticaret A.Ş.	Turnkey contracting construction and tourism	43.150.000	96,76
Alarko Fenni Malzeme Satış ve İmalat A.Ş.	Marketing of industrial equipment and after sales service	230.000	54,59
Attaş Alarko Turistik Tesisler A.Ş.	Touristic facility management	6.500.000	0,46
Alarko Gayrimenkul Yatırım Ortaklığı A.Ş.	Real estate investment	3.565.000	15,54
Almüt Alarko Sınai Gereçler İmalat ve Mümessillik A.Ş.	Marketing of technical equipment and representation	50.000	57,00
Altek Alarko Elektrik Sant. Tes. İşl. ve Tic. A.Ş.	Electric energy production	2.000.000	36,87
Alfarm Alarko Leröy Su Ürünleri San. ve Tic. A.Ş.	Production and marketing of seafood	400.000	40,84
Aldem Alarko Konut İnşaat ve Ticaret A.Ş.	Housing, construction	50.000	0,06
Al-Riva Projesi Arazi Değerlendirme, Konut İnşaat ve Tic. A.Ş.	Housing, construction	6.839.064	11,55
Al-Riva Arazi Değerlendirme, Konut İnşaat ve Tic. A.Ş.	Housing, construction	3.308.556	2,49
Al-Riva Arazi Değerlendirme, Konut İnşaat, Turistik Tesis., Golf İşl. ve Tic. A.Ş.	Housing, construction and touristic facility management	10.489.765	2,16
Gönen Gıda Sanayi A.Ş.	Production of canned goods	2.000	0,84
Yaşar Dış Ticaret A.Ş.	Export and import	90.038.867	0,0008
Arı Teknokent Proje Geliştirme Planlama A.Ş.	Technologic Development	50.000	1,00
Mosalarko J.V.	Real estate project construction and use	Ruble 100.000.000	50,00

## EARNINGS FROM SUBSIDIARIES AND EQUITY PARTICIPATIONS

- a) Our corporation's shares in dividends paid out over the last three years by the companies in which it has either minority or majority shareholdings:

Company Name	(TRY)		
	2003	2004	2005
Alarko Carrier Sanayi ve Ticaret A.Ş.	1.259.609	-	998.609
Alsim Alarko Sanayi Tesisleri ve Ticaret A.Ş.	9.627.195	1.451.397	3.041.960
Alarko Gayrimenkul Yatırım Ortaklığı A.Ş.	110.776	-	-
Alamsaş Alarko Ağır Makina Sanayii A.Ş.	6.981	-	-
Almüt Alarko Sınai Ger. İml. ve Müm. A.Ş.	20.466	23.466	23.313
Alarko Fenni Malzeme Satış ve İmlalat A.Ş.	22.066	-	-
Aldem Alarko Konut İnş. ve Tic. A.Ş.	247	-	-
Attaş Alarko Turistik Tesisler A.Ş.	1.502	2.311	3.466
Yaşar Dış Ticaret A.Ş.	3	3	-
<b>TOTAL</b>	<b>11.048.845</b>	<b>1.477.177</b>	<b>4.067.348</b>



- b) The 2004 profits of the companies within the Alarko Group from which we receive dividends, the distributable profits remaining after tax and legal reserves are set aside and the dividends distributed from the past year's reserves are given in the table below:

ALARKO GROUP MANAGED COMPANIES	(TRY)			
	Profit for the Period 2004*	Distributable Profit (A)	Distributed Profit (B)	(B/A) %
Alarko Carrier Sanayi ve Ticaret A.Ş.	12.185.098	7.661.305	2.376.000	31
Almüt Alarko Sınai Ger. İml. ve Müm. A.Ş.	70.408	44.740	40.900	91
Attaş Alarko Turistik Tesisler A.Ş. (**)	194.364	184.646	750.000	406

(\* ) The amounts are adjusted to reflect the effects of inflation.

(\*\*) Profit distribution has been made from the extraordinary reserves.



# SUBSIDIARIES OF ALARKO GROUP

The Alarko Group of Companies consists of a number of companies and entities operating in various sectors grouped within the framework of Alarko Holding A.Ş. established in 1972. Although the companies within the group are autonomous in management, they are directed and audited centrally in terms of financing, fiscal coordination, supervision, legal affairs, management information systems, human resources, promotion, training and organization in accordance with the central coordination and control principle.

The companies of the Alarko Group operate in 6 major fields of activity.

## **CONTRACTING GROUP**

## **LAND DEVELOPMENT GROUP**

## **INDUSTRY AND TRADE GROUP**

## **TOURISM GROUP**

## **ENERGY GROUP**

## **SEAFOOD PRODUCTS GROUP**

We are presenting the 2005 activities of the companies in our group to your comments and evaluation.

# THE CONTRACTING GROUP

Our Contracting Group operates as a general contractor and carries out large infrastructure works, construction of buildings and industrial plants both in Turkey and abroad.

The areas in which the Contracting Group operates can be summarized under the following headings:

- Underground and Railway Systems
- Airports
- Water and Waste Water Treatment Plants
- Gas and Oil Pipelines
- Complete Plants on a Turn-key Basis
- Construction of Business Centers, Residences, Hospitals, Hotels and Schools
- Highways and Dams
- Compressor and Pump Stations
- Power Plants
- Petrochemical and Refinery Plants
- Tank Farms

Competition in the contracting sector is getting increasingly tougher and despite the increasing job opportunities in the world, getting contracts is becoming more and more difficult. Therefore, completing started projects rapidly with maximum profit while increasing market and customer variety is becoming a must. Moreover, companies using developed organization and management systems achieve a serious competitive advantage. The markets in which we are presently active extend over a vast area from Algeria in the west to the Sakhalin Island in the east, Yemen-Qatar in the south, and Russia and Kazakhstan in the north. A new office to explore developed market opportunities and follow up projects in the Gulf countries is planned to open in Qatar for early 2006. The increase in oil prices resulted in an increase in investments in this sector and numerous refinery and petrochemical projects have come on the agenda. Major development is also expected in the area of natural gas and oil pipeline projects.

Our organization, management systems and operating methods are constantly being reviewed. In 2005, our existing staff was supplemented and training continued intensively due to the increase in business volume. New sources for the purchase of materials and services were explored and cost savings were obtained. Work-site supervision and effectiveness were improved. Thanks to the Occupational Health and Safety Management Systems applied, there has been a serious drop in occupational accidents and our accident rate is now at the level of developed countries. Moreover, the Environment Management Systems applied has enabled us to lower the possible damage of our operations to the environment to acceptable levels. Our company has the ISO 14001, ISO 9001:2000 and OHSAS 18001 certifications.

The projects in progress and those recently undertaken are summarized below:

## **TCDD Ankara - İstanbul High Speed Train Project:**

The earthworks of the Ankara-Istanbul High Speed Train project started in May 2004 and are now 90% complete. Construction of engineering works is continuing. Track laying has started. The Ankara-Istanbul route will drop to 3 hours 15 minutes when the project is completed.

## **Adana Underground Project:**

The laying of tracks with the resources of the Adana Municipality is continuing. Efforts are being made to complete the first phase of the project and putting it into operation. The project is progressing slowly due to the delay in the approval of the foreign credit facility whose approval is expected in the first half of 2006.

## **İstanbul Underground Project:**

The foreign credit facility for this project covering the electromechanical works and fine civil works of the Taksim-Yenikapı section has been obtained by us. The problems related to the Golden Horn crossing were to a great extent resolved in 2005. Delivery of the work-site and commencement of works are planned for early 2006.

**Astana International Airport Project:**

Construction of this airport with an annual capacity of 1 million 360 thousand passengers and 2 million 700 thousand tons of cargo was completed and it was inaugurated with a ceremony in early 2005. The airport is being commercially operated since March 2005. The project totally realized by Alarko is among the largest airports of Central Asia.

**DSİ Melen Water Supply Project:**

No construction work was undertaken in 2005 due to the budget restrictions of DSI. Construction work on the project will restart in early 2006.

**Baku - Ceyhan Pipeline Project:**

The 465 km long section of the pipeline project that convey the crude oil produced in Azerbaijan via Georgia to the sea terminal built in Ceyhan and from there to the world markets has been completed. The completion of this critical project allows the safe transport of oil to international markets thus establishing an economically and environmentally sustainable transport system. The project is also of major importance as it will help decrease the accident risks arising from the heavy traffic load at the Bosphorus and Dardanelles crossings.

**Tüpraş - İzmit Refinery DHRP (Diesel - Kerosene) Project:**

The project consists of increasing the unleaded petrol production capacity of the İzmit Tüpraş Refinery and to bring the upper limit of sulfur in kerosene to the European Union standards. The major portion of the modernization of the refinery and construction of the annex facilities were completed in 2005. Assembly work is continuing and will be completed and delivered within 2006.

**DSİ Cyprus Water Supply Project:**

The aim of the project is to meet the water needs of Northern Cyprus from the Anamur Dragon Stream via a pipeline. The engineering services contract for the project that is to start with sea exploration that will last for approximately 27 months has been signed.

**West Kazakhstan Highway Project:**

Construction of the rehabilitation project of the existing 460 km highway between Aktobe and Karabutak - Kostanai and 21 bridges was started in 2003 and has been completed at the end of 2005.

**Almaty - Bishkek Highway Project:**

The Almaty - Bishkek Highway Rehabilitation Project covers the rehabilitation and partial reconstruction of the existing 60 km highway. 69 % of the project is financed by a loan extended by the Asian Development Bank and the rest by the local budget. Construction of the highway located on the "Silk Road" started in 2003. The project was completed at the end of 2005.

**Construction of Algeria Desalination Plant and Power Plant:**

Construction of the project whose mobilization works started in 2003 was completed by the end of 2005. The desalination plant and cogeneration power plant with a capacity of 450 kw located in the Arzew Industrial Zone where the largest refinery for the export of Algerian natural gas and liquid gas is located will provide electrical energy and desalinated water to Arzew and its neighborhood.

**Istanbul Metropolitan Municipality 4.Levent-Ayazağa Underground Project:**

Tunnel digging of the project whose contract was signed in 2004 commenced in 2005. Tunnel digging is proceeding in five shafts. Construction of stations started and is continuing.

**Rostov Cigarette Plant:**

Construction of the plant was started in 2004 and has been completed in 2005. Trial cigarette production has started.

**Tüpraş Kırıkkale Refinery DHRP (Diesel-Kerosene) Project:**

Contract of the project was signed in 2004 and construction started in January 2005. The project will be completed and delivered in 2007.

**Sakhalin LNG Project:**

The contract for the construction of the world's largest plant for liquification of natural gas on Sakhalin Island of the Russian Federation was signed in 2004. The construction of the plant is continuing. In addition to construction of the Industrial Building within the scope of the project, the infrastructure pipeline and precast pipe bridge constructions are proceeding.

**Moscow Oncology Hospital:**

In 2005, a new contract was signed with the administration to proceed with the project in Moscow whose construction was not completed. The mobilization works of the project whose financing was provided by the Turkish Exim Bank are continuing.

**Astana Water Supply Project:**

The project whose contract was signed at the end of 2005 includes supplying water to Astana, a water intake plant, purification plant, waste water purification plant, and the clean water distribution lines within the city. The project will be completed at the end of 2007.

# THE LAND DEVELOPMENT GROUP

The Land Development Group is proud of and stimulated by its company identity as a reliable company producing high quality buildings which is the result of more than 40 years of know-how and experience accumulation. The group designs satellite towns with full infrastructure, recreation areas, respectful of the environment and operated by modern management methods for its quality conscious clients.

Our Group that creates a difference and offers a new life style in each project it develops has created the most prestigious land development projects in the country. The fact that the value of projects we have realized years ago have exceeded that of more recent projects is proof of the success of our projects.

The 2005 activities and future projects of our Group, a leader as a developer of residence constructions in Turkey and abroad, are summarized below.

## **ACTIVITIES IN TURKEY**

### **Alkent Istanbul 2000**

800 families are enjoying a privileged life at Alkent 2000 Recreation Town, one of the most prestigious settlements of Istanbul with its modern and original concept. The new project to be constructed in this settlement in Büyükçekmece with a view over the lake and surrounded by greenery has been designed as the third phase and named "LAKE MANSIONS". We are aiming at offering the market the most qualified project of Alkent 2000 with these mansion type, large size villas with large gardens of this new phase. The marketing and sales activities of this project have started and the mansions will be delivered to their owners in the fall of 2007. The "Wattabe Nature Sports Club" offering lake and nature sports opportunities and designed as part of the marketing activities of this project has been completed and is in operation.

### **Alkent Riva**

The Alkent Riva project designed with a completely new approach as is with all our projects to date will be offered to the market in the first half of 2006. The modern satellite town to be built over an area of 6.000 acres in Riva, Istanbul will consist of approximately 5.000 residences and social facilities. The project and plans of the first phase of the project consisting of 1.300 residences are ready and efforts to obtain approval and construction licenses are continuing. We are planning to start construction in May 2006. Location for mobilization has been determined and mobilization will be done in the first half of 2006. Construction of the new road from the Kavacık exit of the TEM highway to Riva was completed at the end of 2005 resulting in easy access to our project site. We expect this project to become very attractive with the completion of the connection road.

Houses with gardens and villas targeting the high and middle income groups will be constructed with this project. The scope of the project also contains social facilities such as shopping centers, schools, hospitals and sports grounds. We think that this project will attract a lot of attention with the mortgage financing system going into effect.

### **New Satellite Town Projects**

Designing new satellite town projects for earthquake resistant constructions to be built in preferred areas within the limits of Istanbul and meet the high quality residence demand has begun. We plan to start on these projects following meetings with land owners.

## **ACTIVITIES ABROAD**

Our land development activities abroad and Russia in particular are in progress. In previous years, various projects were realized within the scope of our equal share partnership with the Moscow Municipality. We sold 14 % and leased 73 % of the business center projects developed . As a result of the animation in both the Russian and Turkish markets, we are planning to develop new projects in these countries. We plan to increase our efforts in this area in 2006.

## **ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

Thanks to the atmosphere of stability and confidence attained in the last years, there has been a remarkable animation in our country's economy. As a result of the severe fiscal and monetary policies applied, the decreasing trend in inflation and interest rates was maintained in 2005 while the growth rate reached 7,6 %.

Due to these positive achievements, there has been a significant increase in the demand for real estate in 2005, and a record amount of loans for homes were extended as a result of the increase in demand and convenient loan terms.

As a result of this serious increase in demand for real estate, we have given priority to our construction projects whose preparations were completed to a large extent and started the Lake Mansions project, the 3rd phase of our Alkent Istanbul 2000 project. Construction of this project, whose sales are continuing successfully, will be started in 2006. Moreover, our search for appropriate city center plots suitable for building residences, shopping centers, hipermarkets continues. The large shopping centers and hipermarkets to be built will be leased.

Fethiye Hillside Beach Club Holiday Village, one of the most exclusive holiday villages of Turkey, and Alkent Çarşı, located at Alkent Etiler, one of the most prestigious residential projects of Istanbul, were bought in 2004 and included in our assets portfolio. With these two investments, our Company has started to get long-term rent income and they have made a serious contribution to our income in 2005. In addition, the value increase of these real estates has strengthened the assets of our partnership.

On the other hand, the development works of our estate in Maslak, the most developed business and trade center of Istanbul is progressing. The business and shopping center project to be developed on this estate will bring new animation to the Maslak area.

## **THE INDUSTRY AND TRADE GROUP**

Our Industry and Trade Group produces and markets heating, ventilating, air conditioning units and pumps, and gives after-sales services for these products.

In 2005, the sale of Air Handling Units, Chillers and Fan Coils manufactured using Carrier technology and brand name has continued both in the domestic and international markets. We have started the production and sales of Rooftops, the new product of Carrier, in six sizes for cooling only in the full series and the first four types for the heat-pump. Our company, which is the sole manufacturer of Rooftops (50AZ/UZ016 - 040), is rapidly increasing its sales of these products in the domestic as well as the international markets. The 39 HH Air Handling Units which have been in production for the last six years will gradually be replaced by the newly developed and higher quality level 39 HQ Air Handling Units. The 39 HQ Air Handling Units have been developed in three years by an international team of engineers to which the Alarko Carrier engineering department is also a member.

As to the panel radiators produced with Alarko technology, in order to meet the continuously increasing local and international market demand, the investments to establish a second line were maintained in 2005 and the premises which will house the line were completed. Production of the Trendy Combi which will replace the Minea Combi with bithermal exchanger imported for the economy segment has started. The entire series is complete with the Trendy, Harmony, Serena, Supercomfort and Condensing Atag and offers alternatives to all client profiles. Thus, the targeted sales figures have been exceeded and our market share increased. As a result of

years of R&D efforts, we have started production and sales of the new series advanced technology Light Oil Burners (ALF 42, ALF 65, ALF 65/2, ALF 80/2), Heavy Oil Burners (ALM 50, ALM 59, ALM 60/2, ALM 76/2), Natural Gas and LPG Burners (ALG 60/2, ALG 77/2, ALG 94/2) and have obtained the CE certificate for the gas and heavy oil burners. Domestically manufactured cast iron boilers have been added to the product range and the bathroom radiator supplier has been changed enabling sales of more economic bathroom radiators.

In pumps, one of our main products, new intermediate stages were introduced to the 4-inch submersible pumps and the number of models was increased to 50. In the 6-inch series, special types 6010, 6015, 6020 and 6031 suitable for functioning in corrosive waters were produced and offered to the market. New stages were also introduced in 8131 type pumps. In addition, types 8090, 10180 and 10216, a new special series with high yield bronze fan, were developed for official tenders and offered to the market. As a result of these developments, the number of models has reached 858. Moreover, a drainage pump with shredder knife and stainless fan was added to the product range.

In individual and light commercial air-conditioners, in addition to a large variety of price, all the requirements of the market are provided with 13 different series. We are addressing a large portion of the market in these products with the Carrier, Toshiba and Alarko brands. Our company also contributes to the development of environmental awareness in Turkey with its products using environment friendly refrigerants.

All design requirements of power saving conscious end-users are met with a choice of five different Toshiba and Airstage brand products using the variable refrigerant flow (VRF) system.

## **PRODUCTION ACTIVITIES**

### **The Main Production Plant**

Our main production plant located over an area of 60.000 m<sup>2</sup> in the Gebze Organized Industrial Zone is a modern complex consisting of a covered production area of 20.000 m<sup>2</sup>, office area of 2.000 m<sup>2</sup>, test and research building of 2.000 m<sup>2</sup> and social and training facilities.

The following products are manufactured in this plant.

### **In the area of Central Air Handling**

- Air Handling Units
- Fan-Coils
- Chillers
- Roof-top Units
- Cooling Coils

### **In the area of Heating:**

- Oil Fired Domestic Boilers
- Natural Gas and LPG Fired Combi Boilers
- Light and Heavy Oil and Gas Burners
- Heat Exchangers

### **In the area of Water Pressurizing:**

- Submersible Pumps and Motors
- Circulation Pumps
- Water Boosters

The ACE (Achieving Competitive Excellence) project used in all the areas of UTC that Carrier is affiliated to is applied in the Gebze complex of Alarko Carrier Sanayi ve Ticaret A.Ş., the largest company of our Industry and Trade Group. The quality of products manufactured in our plant is documented with the ISO 9000, ISO 14000, OHSAS 18000 and SA 8000 (Social Accountability) certifications. We are working in collaboration with the universities and TÜBİTAK in our Test and R&D department to continuously develop our products. Moreover, developments in our products are provided through technology transfers from Carrier.

### **Radiator Production Plant**

Our panel radiator production plant is situated in the Istanbul Dudullu Organized Industrial Zone. At this plant, Alarko brand radiators for the domestic market and Carrier brand radiators for export are being manufactured

in three shifts. The expansion works of our Panel Radiator Plant continued in 2005 and are expected to be completed in 2006.

### **TRADING AND MARKETING ACTIVITIES**

Our Group, which has an extensive distribution and service network in Turkey, has sales offices in Istanbul, Ankara and Izmir and liaison offices in Antalya and Adana. The Group has a total of 293 dealers and 387 aftersales service units over the country. It has earned itself a special place in the sector with its dealer and service network, showrooms and well trained personnel. Taking into consideration the trends in the market, in addition to products manufactured in our plants, we have included imported products to our product range. Our Group, that gives customer-oriented service, offers dealers a wide variety of products and provides complete solutions to its clients.

Supplementary products sold in addition to those manufactured in our own plants are:

- Automatic Control Equipment
- Duct Equipment and Filters
- Axial Fans
- Cold Rooms
- Air Conditioners for Operating Theater
- Exhaust Fans
- Radiator Valves and Thermostatic Valves

Building automation systems converting complex buildings such as large business centers, hotels, hospitals into "intelligent buildings" for smooth operation create a serious difference as complete solutions. Operating theater air conditioners for hospitals and special solutions for telecommunications are also within the scope of our expertise.

In addition to central system boiler and burner solutions in heating, we offer combi radiator packages in individual heating thus offering a variety of choices for every customer profile. In individual air conditioners, in addition to Carrier and Alarko brands, we are also offering Flair and Allegro brand equipment which provide more economic solutions and we have attained an important sales volume in these brands.

On the other hand, since 2002, the spare parts and technical service equipment for the heating, air conditioning and pressurizing products are being provided by the Totaline spare parts market. With headquarter in Istanbul, Totaline has markets in Istanbul, Ankara and Izmir and a sales point in Bursa.

The training of our dealer and service personnel as well as our own personnel is being carried out in our modern training centers. Training sessions include personal development training in addition to training on technical subjects.

In 2005, our Industry and Trade Group has realized numerous highly prestigious projects in the areas of heating, air conditioning, hygienic air conditioning and building automation.

## **THE TOURISM GROUP**

In recent years, well-being and trying different experiences that contribute to spiritual and physical development have become the number one trend all over the globe. As a result, a new industry is rapidly growing in the world: "Leisure Management". Basically, the objective of this concept, which is rather new in Turkey, is to create concepts that will lead people to manage their leisure time in the best way possible. This phenomenon includes a variety of concepts such as traveling, sports, relaxing, having fun. The Alarko Tourism Group is one of the first companies to have caught up with this management style developing rapidly over the world. The Group is continuing its efforts in this context in accordance with the global trends at **HILLSIDE BEACH CLUB Holiday Village, HILLSIDE SU HOTEL, HILLSIDE CITY CLUB-ETİLER and HILLSIDE CITY CLUB-TRIO** sports and recreation centers, the **CINECITY CINEMAS** chain and **SANDA SPA** chain.



The Alarko Tourism Group analyzes the trends in the world and the dynamics behind these trends and then determines the values that appeal to modern people and creates concepts exceeding their expectations and aims at being "above competition" in all sectors just as it is in the sector of hotels, sports, cinemas and spas.

### **HILLSIDE BEACH CLUB - Fethiye**

Maintaining its tradition of offering its guests the holiday of their dreams with its friendly personnel and service quality exceeding expectations, Hillside Beach Club, located along its own bay in Fethiye and referred to as "paradise on earth" by its guests, was preferred by 26.000 local and foreign guests in 2005. In 2005, Hillside Beach Club, that welcomes its guests with surprise novelties, a different atmosphere and colorful activities every year, opened its doors with decoration changes in the terraces and rooms, all of which overlook the Kalemya Bay where the Mediterranean meets the Aegean. In accordance with the high demand, for the first time this year, Hillside Beach Club stayed open during the Ramadan holiday and closed the season on 9 November. Hillside Beach Club does not base its price policy to the demand but to the principle of giving the guests "their money's worth". In 2005, too, the club has proven its success with customer satisfaction reflected in the questionnaire results as well as with an occupancy rate of approximately 100 %. Also in 2005, Hillside Beach Club was selected to the "Best Hotel" category by the British tour, operator Thomas Cook and awarded the "Holly Award" by the German TUI.

### **HILLSIDE SU HOTEL - Antalya**

The Hillside Su deluxe hotel of Alke Turizm A.Ş., one of the major steps in line with our Tourism Group's objective of "expanding through operating agreements" making use of its know-how in the service sector in selected projects, continues to attract attention both at home and abroad. Hillside Su has introduced a new hotel approach both to Turkey and the world with its special design, dynamic life style offered to its guests, simple, original and surprising features and has emerged as the first concept hotel that the world famous Design Hotels Group selected to collaborate with in Turkey. Hillside Su is a holiday hotel open 12 months a year and thanks to its well-equipped conference halls and the successful performance of its sales team, it has hosted the meetings of numerous international companies. Our hotel is often mentioned for its architectural characteristics and continues to be praised in the international press and plays a major role in the promotion of Turkey.

### **HILLSIDE CITY CLUB - Etiler**

Hillside City Club-Etiler, the precursor of sports as a life style and the customer oriented recreation center concept in Istanbul, has become a trend setter with its 15 years of experience in the field. The premises, which were renovated and expanded last year in accordance with our continuous renovation principle, maintained their position as the meeting point of our target group with tournaments, cultural tours and other club activities organized in addition to sports activities. Moreover, in 2005, the club continued to enjoy the results of the communication and marketing activities carried out and the number of its members reached record levels despite other new premises established in the vicinity. Operations such as Mezzaluna Restaurant, Starbucks Coffee, D&R, Sanda Day Spa, Mos Hair Saloon, Sun Vital Solarium have contributed to make the club a meeting point and a life style center and continue to be the popular venues of the guests.

### **HILLSIDE CITY CLUB - TRIO**

Hillside City Club - Trio, a Tekser-Baytur investment operated by the Alarko Tourism Group and opened in 2003, reached a record number of 4.500 members in its first year and in a short time became a giant "recreation center" on the Asian side of Istanbul.

Hillside City Club - Trio, one of the largest complexes of its kind in Europe, contains sports halls, indoor-outdoor swimming pools, indoor basketball court, squash, racquetball and tennis courts, as well as many alternatives such as 7 cinema theaters, restaurants, cafés, children's club and Sanda Day Spa extending over an area of 23.500 m<sup>2</sup> and has reached a record number of members making important contributions to group synergy.

### **CINECITY CINEMAS**

Our Tourism Group that has been active in cinema operations since 1993, continued its activities in this area in 2005 with 3 cinema theaters at Alkent-Etiler, 6 at Zeytinburnu Olivium Outlet Center, 7 at Hillside-Trio and 9 at Izmir Kipa Shopping Center. In addition to the pleasures of cinema, the Cinecity Cinemas, that creates a different

synergy with the restaurants and cafés in its operation, emerges from the traditional cinema concept with the original services it offers and develops by continuous innovations.

Our Tourism Group acknowledged as a "quality" operator for its design, concept, technology and perfectionist management approach aims at progressing in the field of cinema operation by increasing its number of theaters in large cities.

### **SANDA DAY SPA**

Four years ago, the Tourism Group introduced the natural SPA culture that created great interest in the world to the Turkish people at Fethiye Hillside Beach Club. The Sanda Spas designed according to a synthesis of Far Eastern, Mediterranean and local influences are offering their services with Turkish and Far Eastern therapists as Turkey's first and largest chain of spas in 6 locations at the Hillside Hotels, Hillside Sports Centers and buzYAZ.

Recently, the Group is progressing by expanding its Sanda Day Spas that are met with interest particularly in large city centers.

### **HILLSIDER MAGAZINE**

Hillside Magazine, an Alarko Tourism Group publication, celebrated its 10th anniversary in 2005 and continues its "exemplary" role as a unique business model based only on advertising revenues.

## **THE ENERGY GROUP**

### **ALTEK A.Ş.**

One of the most important sectors that has emerged as a result of the increasing animation in the Turkish economy in recent years is the energy sector. As the growth rate increases with the stability achieved in recent years, the demand for energy will grow as a result of the increasing interest of foreign capital in direct investments in Turkey. Within the scope of this perspective, Altek A.Ş., a company of our group active in the energy sector, is continuing its growth with new investments in this field.

Energy production is continuing at the **Düzce-Hasanlar, Tarsus-Berdan** and **Malatya-Tohma Hydroelectric Power Plants** that are among the first examples of the Build-Operate-Transfer model in Turkey. Our Kırklareli Natural Gas Power Plant is now in operation.

**Our Kırklareli Natural Gas Combined Cycle Power Plant** with an installed capacity of 80 MW built on the Build-Operate-Transfer model and whose construction started in 2002 was completed and put in operation in 2005. Although construction started on the Build-Operate-Transfer model, with the enforcement of the new Energy Market Act, our project was excluded from the scope of the BOT model. As a result, the power sales guarantees in our privileged contract were relinquished and the model based on selling the electrical power generated at the plant to consumers according to free market conditions was adopted as the new Act suggests.

Following the completion of the power transmission lines connecting the plant to the national power system, the temporary acceptance of the gas turbines was done in October 2005 and sales of power from our plant were started. The annual production potential of this plant is 600 million kwh.

### **New Power Plant Projects**

Our company has won the license tender of the Electricity Market Board for the construction of the **Karakuz Hydroelectric Power Plant**. The construction of this project with a capacity of 87 MW on the Körkün River in Adana will be started following the acquisition of a production license from the Electricity Market Board after the signing of the Water Usage Contract with DSI (State Waterworks Administration). The total investment for the Karakuz Hydroelectric Power Plant is approximately US \$ 100 million and its annual production potential is 305 million kwh.

Applications have been made to the DSI and Electricity Market Board for the construction of the **Beşkonak and Sinanhoca Hydroelectric Power Plants**. Our company has applied for the capacity certificate for the construction and operation of the Beşkonak Dam and Hydroelectric Power Plant with a capacity of 76 MW and the Sinanhoca Regulator and Hydroelectric Power Plant projects with a capacity of 50 MW opened to investors by DSI within the framework of new regulations and the free market model.

Feasibility studies to participate in the redevance bids opened for the transfer of operating right of the lignite production areas of TKİ for the construction of **lignite power plants** have started. Initially, we will participate in the tender for the operation rights of the Bolu-Göynük coal administration that is suitable for the construction of a power plant with a capacity of 160 MW for which a tender announcement has been made.

#### **Preparations for Public Offering**

If market conditions allow, we are aiming at offering 20 % of our shares to the public in 2006.

## THE SEAFOOD PRODUCTS GROUP

Alfarm A.Ş., established in 1991 for breeding and processing salmon, caught the trend of healthy eating habits developing in the world in time and made great strides in a short time. Our company is also processing sea trout and other kinds of fish in its plant and offering them to the market. Our first salmon processing plant was established in Dudullu, Istanbul in 1993 and moved to the modern production plant in Suadiye, Izmit in 2001 in order to be able to answer the increasing demand. Our product range and market share have been increased with our new plant.

#### **2005 Has Been a Year of New Endeavors.**

In 2005, our Company has made major strides in the areas of product promotion, marketing efforts and expansion of the distribution organization. In 2005, a strategic partnership was established between Alfarm A.Ş. and the Lerøy Group ASA of Norway, one of the leading companies in the world on salmon breeding and processing. Within this framework, 50 % of the Alfarm A.Ş. shares were sold to Lerøy and our company name was changed to Alfarm Alarko Lerøy Su Ürünleri San. ve Tic. A.Ş. A great synergy was reached thanks to this strategic partnership. A larger number of consumers were reached in 2005 by increasing the sales volume of fresh salmon at Carrefour, Metro, Real, Migros, Tansaş and Kipa supermarkets, the sea products wholesalemarket and fish markets. As a result of our promotion efforts to introduce fresh salmon, this product is now being sold in many areas of our country. Thus, our budget objectives have, to a great extent, been exceeded.

#### **New Projects and Newly Developed Products:**

Developed by our engineers at our plant, our smoked salmon with 4 different spices whose production started in 2005, has taken its place on market shelves and tables. Moreover, an important sales volume was attained with the sales of mackerel and Saithe fish. All investments planned for 2005 were accomplished, new storage areas were put to use increasing the coldroom capacity to 600 tons. Our promotion efforts have been increased and we opened a stand at the Anfaş Fair with our partner Lerøy in February 2005. In addition, our brand and product promotion was continued by our participation at the III. Turkish Gastronomy Competition held in October 2005.

**Envisioned Investments and New Targets:**

We are planning to make new investments in 2006 so as to increase capacity and product variety. New investments in smoking, vacuuming and deboning will continue, a new laboratory and a bar-code automation system will be established.

With new investments to be made in 2006, we expect to increase our capacity and quality, and as a result, our share in the market and our sales volume. New machinery to be bought will enable us to develop products with a longer shelf life. Using the vast experience of our foreign partner, we intend to offer the market products that will address a large portion of the population.

Moreover, thanks to these new products, our brand will be promoted in supermarkets and catalogues. Further promotion of our products is expected by participating in fairs and organizing seminars. We are also aiming at introducing our brand and distributing our products all over Turkey by tasting activities. We are also planning to export a large portion of our products to Europe.

# BUSINESS VOLUME

We present to the view of our shareholders the following table which shows the consolidated results of the last five years in figures and the volume we have reached as a result of the activities which we described in earlier sections of the report.

Companies and Businesses According to Activities	Consolidated Results (Thousand TRY)				Consolidated	Total
	2001	2002	2003*	2004*	2005 (Thousand TRY)	
Contracting & Land Development	122.274	42.202	31.099	55.306	432.447	441.091
Industry & Trade	105.944	144.103	155.870	203.092**	227.066**	231.329
Tourism	19.477	25.959	31.100	36.416	37.637	37.739
Energy	6.317	12.188	9.178	13.786**	7.957**	7.959
<b>TOTAL</b>	<b>254.012</b>	<b>224.452</b>	<b>227.247</b>	<b>308.600</b>	<b>705.107</b>	<b>718.118</b>

\* Amounts adjusted for inflation.

\*\* The total of the turnovers is taken in order to be in accordance with the previous years.

## Perspectives for 2006

Our company has adopted the principle of working according to a plan and it has made it a tradition to reflect this in its annual reports. Our aim is to contribute to the comparison of the results of 2005 with the volumes which we foresee for 2006 and to their evaluation.

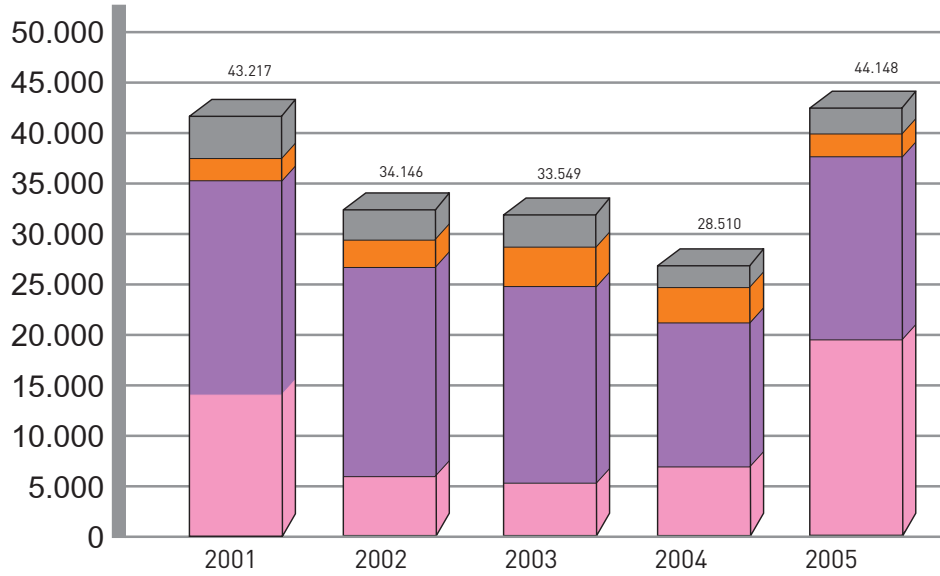
Starting from this point, the turnovers planned for 2006 are as follows according to groups of activities :

Companies and Businesses According to Activities	2006	
	Consolidated (Thousand TRY)	Total (Thousand TRY)
Contracting & Land Development	475.573	475.573
Industry & Trade	281.640	291.033
Tourism	40.027	40.027
Energy	53.852	53.852
<b>TOTAL</b>	<b>851.092</b>	<b>860.485</b>

# TAXES PAID AND PERSONNEL EXPENSES

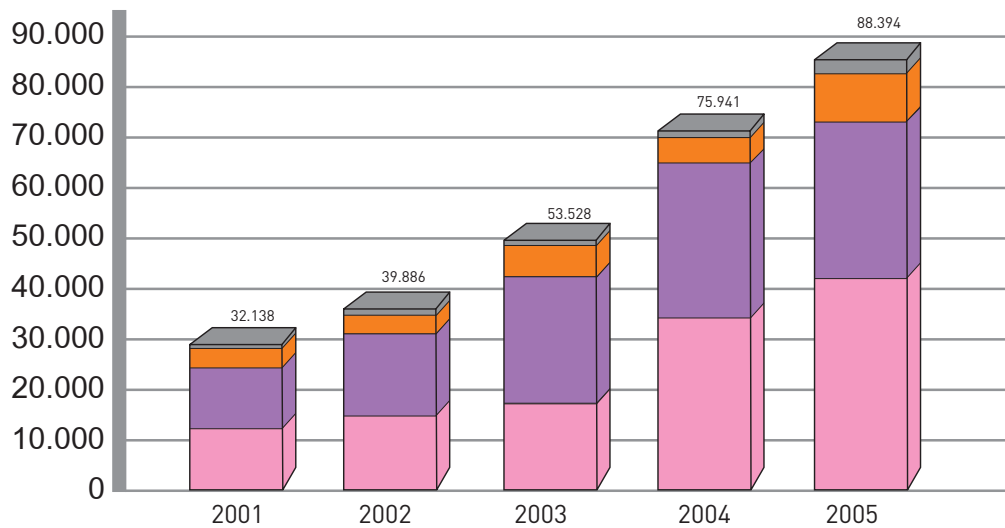
## TAXES PAID

(Thousand TRY)



(Thousand TRY)

## PERSONNEL EXPENSES



# SOCIAL AND INDUSTRIAL ACTIVITIES

## **EMPLOYMENT**

A total of 5582 people consisting of 1803 white collar employees, mainly engineers and architects, 3779 technicians and workers were employed by the companies and enterprises within the body of Alarko Holding A.Ş. in 2005. In addition, an average of 5000 people were employed by the sub-contractors and external work-shops. The severance pay burden of Alarko Holding A.Ş.(excluding affiliates) as of 31 December 2005 was TRY 499.261,25.

## **TRAINING**

In 2005, the personnel received a total of 54.312 man/hour of training given within the group and a grand total of 62.957 man/hour of training including training given by outside groups. Technical, financial, administrative and computer training seminars were organized within the group and our personnel was given the opportunity to attend seminars in their related areas organized by well-known training institutions. In addition, on the job training sessions on welding, assembly and other production techniques, construction, ISO 9000 and Occupational Security were organized in our plants. Training given to Alarko Carrier Sanayi ve Ticaret A.Ş. dealers and service units continued.

## **EMPLOYEE-EMPLOYER RELATIONS AND RIGHTS GRANTED**

Keeping in mind the economic situation in Turkey, efforts were made to establish a realistic equilibrium between employees and employer and find solutions that would not disadvantage employees under present economic conditions. A collective labor agreement covering the period 01.09.2005 - 31.08.2006 was signed and put in effect between the companies in our group and MESS - Türk Metal.

## **ALARKO EDUCATION - CULTURE FOUNDATION**

In the 2005 - 2006 school year, the Alarko Education - Culture Foundation, founded in 1986, gave scholarships to 47 students in their last year of university or in graduate programs in the engineering, civil engineering, economy, finance, business administration departments of various universities, 27 students studying in technical or vocational high-schools and 26 successful children of our employees in need of financial support. Thus, more than 1000 university students and more than 500 high school students have so far been granted gratis scholarships from our Foundation.

On the other hand, our Foundation continued to sponsor various cultural and artistic events this year, too. Our Foundation continues to cooperate with outstanding scientific and cultural foundations.

## **ALARKO FUTURE'S CLUB**

The future of the Alarko Group of Companies lays with young generations who are university graduates, dynamic, hard-working, clever, creative, knowledgeable, have the ambition and desire to move up, and expect a future at Alarko.

In 2005, the Alarko Future's Club maintained its activities aiming at the professional and personal development of qualified young people to give them the opportunity to understand the benefits of team spirit and cooperation and become the well-trained experts or managers that will lead Alarko to the future.

## DEVELOPMENTS DURING THE LAST FIVE YEARS

The development trend of our holding company in profit/loss, participations and dividends distributed in the last five years is given below:

	2001	2002	2003	2004	2005
<b>Profit / Loss before Tax</b> (TRY)	34.260.308	40.245.618	15.918.082	[2.446.328] **	67.867.271 ***
<b>Equity Participations</b> (TRY)*	10.261.261	32.062.698	46.131.045	15.479.298	15.644.952
<b>Capital</b> (TRY)					
• Issued					
- As free shares	11.127.284	11.127.284	11.127.284	11.127.284	11.127.284
- Against cash	4.952.716	4.952.716	4.952.716	4.952.716	4.952.716
Total	16.080.000	16.080.000	16.080.000	16.080.000	16.080.000
• Registered	25.000.000	25.000.000	25.000.000	25.000.000	25.000.000
<b>Dividends</b>					
• Net dividends (Per share a par value of TRY 1)					
- According to paid-in capital	0,49	0,65	-	-	0,20
- According to total capitalization (Including distributed bonus shares)	0,15	0,20	-	-	0,06
• Net dividend rates					
- According to paid-in capital	48,7%	64,9%	-	-	20,4%
- According to total capitalization (Including distributed bonus shares)	15%	20%	-	-	6,3%

\* Amounts indicated at the Equity Participations covers affiliates and subsidiaries for the years 2001, 2002 and 2003, and covers only the affiliates for the years 2004 and 2005.

\*\* Amounts consolidated and adjusted for inflation.

\*\*\* Amounts consolidated.



# ÜZEYİR GARİH'S VIEW

## COMPANY EMPLOYEE RELATIONS IN IMPROVING QUALITY\*

In my opinion, in the years 2000 quality will be the main logo in manufacturing, marketing and sales.

Quality can be described as meeting the customers' requirements in every respect.

Developing technology is soaring competition and the understanding of acquiring that which is better, or in other words, that which is of better quality is leading to survival in the free enterprise environment.

Customer requirements are continuously changing with the prospects offered by competition.

Quality is meeting customer requirements in every respect.

In order to satisfy the customers, we must watch their changing requirements at all times and met them at once. Taking a further step and directing the customer and determining their possible requirements before competition takes action can facilitate becoming a precursor in quality.

Quality in an enterprise can be attained by team work.

Team work is a must for quality and on time delivery of goods.

Whether goods or services, all the pieces of products are produced by the different members of the team.

The synchronized and harmonious work of these individuals depends on their motivation, their ability to share.

Team work is a must for quality and on time delivery of goods.

Educated people are not motivated by taking orders and executing them but by making decisions, if need be discussing them with their superiors, getting their approval and then executing them.

A quality article can only be produced with the efforts of a team consisting of quality members.



A quality team member is one who fulfills the customer's requirements and desires. This is a prerequisite of the definition of quality.

Though it may seem paradoxical, the company is the customer of the employee and the employee of the company.

It is evident that there is mutual interaction here. In this case, to ensure the required quality, the employee must determine what the company expects of him/her, the company must determine the needs of the employee and satisfy them.

This issue must be discussed between the team and the administration, the head of the team and the members to find a solution and the solution must be applied.

To ensure the required quality, the employee must determine what the company expects of him/her, the company must determine the needs of the employee and satisfy them.

The head of the team is the customer of his team. He/She must be able to clearly state his/her requirements while the team must be able to state how the training is to be developed so as to be able to satisfy those requirements.

In addition, since the head of the team is in a sense accepted as the customer of the team, the requirements of the team should be taken to the company administration by him/her.

To achieve this, collective and individual to individual meeting methods must be developed to create a quality company, a quality pair, and thus facilitate production of quality goods.

(\*) Quoted from the 1998 edition of the book "My Experiences V".

# ALARKO HOLDING A.Ş. REPORT ON COMPLIANCE WITH CORPORATE MANAGEMENT PRINCIPLES

## **1. Statement Of Compliance With Corporate Management Principles**

Our Company takes due care to implement the rules mentioned in Corporate Management Principles published by the Capital Markets Board. Explanations on this issue are herebelow.

## **PART I - SHAREHOLDERS**

### **2. Unit in Charge of Relations with Shareholders**

The duties of the unit in charge of relations with shareholders are carried out by the shareholders department formed within the Alarko Group of Companies.

The director and staff of the department are; Lawyer Aysel Yürür and Emel Ecevit.

For communication:

Tel : 90 212 310 33 00 - 0212 227 52 00

Fax : 90 212 236 42 08

e-mail: aysel.yurur@alarko.com.tr

The general assembly meeting of the Company was held, documents to be referred by the shareholders at the meeting were prepared and outcomes of the meeting were communicated to the İstanbul Stock Exchange and Capital Markets Board for publishing during the year. Questions of about 110 investors have been answered during this period.

### **3. Exercise of Right to Obtain Information by the Shareholders**

Questions of the shareholders commonly relate to investments, turnover, capital increase and dividend payments of the company. Some 110 questions were asked within the year. Questions and answers given were communicated to the Board of Directors. Company's articles of association contain no provision regarding appointment of an independent auditor. No request was made during the year for the appointment of an independent auditor.

### **4. Information About the General Assembly**

The Ordinary annual general assembly meeting of the company was held with a quorum of 69,55 %. The meeting was attended by the representatives of media. Invitation to the meeting was made by way of public announcement, letters sent to shareholders and notifying the İstanbul Stock Exchange. The activity report, auditors' report, financial statements, articles of association, meeting agenda and profit distribution proposal by the Board of Directors were presented to the shareholders at the company's headquarters prior to the general assembly meeting. The İstanbul Stock Exchange and Capital Markets Board were notified of the profit distribution proposal prior to the general assembly meeting. At the general assembly meetings, the shareholders exercise their right to ask questions and such questions are duly answered. No proposal was made other than by major shareholders. The Company's articles of association contain no provision regarding vesting the authority for making decisions on splitting, sale, purchasing and letting of assets in the general assembly. The minutes of the general assembly meeting are maintained at the Company's headquarters open to the shareholders for review.

### **5. Voting Rights and Minority Rights**

Voting rights bear no concession. Minority shares are not represented at the management. No cumulative voting is applicable.

### **6. Policy and Time of Profit Distribution**

No concession is granted in connection with participation in company's profits. Profit distribution is carried out within the period set forth in applicable laws. The amount of profit available for distribution will be determined taking into account the new investments to be made and liquidity status if the Capital Markets Board terminates profit distribution obligation in 2006 and the following years.

### **7. Transfer of Shares**

There is no specific provision in the company's articles of association limiting the hand over of shares.

## **PART II - PUBLIC INFORMATION AND TRANSPARENCY**

### **8. Company's Informing Policy**

Annual information and future expectations of the company are announced to the public by the Chief Executive Officer through the printed and visual media upon closing of the annual ordinary general assembly meeting. During the year, the necessary information is given to the public by the President of the Board of Directors and the Chief Executive Officer. Any material situation which evolves during the year is announced to the public in a timely manner.

Responsibility for observing any and all matters which may require announcement exclusively to the public and answering the question asked to the company rests with the Directorate of Shareholders Service. Questions asked to the company during the year verbally or in writing are answered by this department and the Board of Directors is informed accordingly. The staff in charge of implementing the company's informing policy is Chief Executive Officer Ayhan Yavrucu.

### **9. Announcement of Special Cases**

During the year 2005, announcements in connection with 9 special cases were made. No additional explanation was requested.

### **10. Company's Web-Site and Content**

Alarko Holding A.Ş. has a web-site. The company's web address is [www.alarko.com.tr](http://www.alarko.com.tr) "Report on Compliance with Corporate Management Principles of Capital Markets Board" which contains a number of links for the following headings may be accessed from the "Investor Relations" link of the web-site. Information provided in Corporate Management Principles, Part II, Article 1.11.5 as mentioned in Article 10 of this report is accessible via the following links as well.

## **LIST OF LINKS**

### **1) STATEMENT OF COMPLIANCE WITH CORPORATE MANAGEMENT PRINCIPLES**

#### **PART I - SHAREHOLDERS**

- 2) Shareholders Relations Department
- 3) Exercise of Right to Demand Information by the Shareholders
- 4) Information on General Assembly
- 5) Voting Rights and Minority Rights
- 6) Policy and Time of Profit Distribution
- 7) Transfer of Shares

#### **PART II - PUBLIC INFORMATION AND TRANSPARENCY**

- 8) Company's Informing Policy
- 9) Announcement of Special Cases
- 10) Company's Web-site and Content
  - Trade Register Information
  - Recent Partnership and Management Structure
  - Detailed Information on Preference Stocks
  - Current Text of Company's Articles of Association Including Date and Issue Number of Trade Register Gazettes where Amendments thereto Are Published.
  - Announcement of Special Cases
  - Annual Reports
  - Periodical Financial Statements and Reports
  - Registration Statements and Public Offering Circulars
  - Agendas of General Assembly Meetings
  - Lists of Attendance and Minutes of General Assembly Meetings
  - Specimen Form for Voting by Proxy
  - Specimen Form for Compulsory Information Prepared in Collection of Share Certificates or Proxy by Way of Invitation.

- Minutes of Board Meetings where Important Decisions Are Taken which May Affect the Value of Capital Market Tools.
- Frequently Asked Questions (demands for information, questions and denunciations to the Company and their answers)

**11) Announcement of Real Person Plenary Shareholder (s)**

**12) Publication of Insiders**

**PART III - OWNERS OF INTEREST**

**13) Informing the Owners of Interest**

**14) Participation of Owners of Interest in Management**

**15) Human Resources Policy**

**16) Information on Relations with Customers and Suppliers**

**17) Social Accountability**

**PART IV - BOARD OF DIRECTORS**

**18) Structure, Composition of Board of Directors and Independent Members of Board of Directors**

**19) Qualifications of Board of Directors**

**20) Mission, Vision and Strategical Objectives of the Company**

**21) Risk Management and Internal Control Mechanism**

**22) Powers and Responsibilities of Board Members and Managers**

**23) Operational Principles of Board of Directors**

**24) No Business or Competition with the Company**

**25) Rules of Ethics**

**26) Number, Composition and Independence of Board of Directors' sub-committees**

**27) Financial Rights Granted to Board of Directors**

**11. Announcement of Real Person Plenary Shareholder (s)**

Real person plenary shareholders of the Company are announced by the Company upon request.

**12. Announcement of Insiders**

List of insiders has been announced to public in the Annual Report of 2004 and the names of insiders are as follows:

- İshak Alaton
- İzzet Garih
- Vedat Aksel Alaton
- Ayhan Yavrucu
- Güner Koçel
- Dalia Garih
- Leyla Alaton Günyeli
- Işık Biren
- Ahmet Vural Akışık
- Mesut Zaloğlu
- Mustafa Filiz
- Ümit Nuri Yıldız
- Ömer Çelik
- Aysel Yürür
- Ahmet Yüksel Varol
- Oktay Altınak
- Burcu Özsoy
- Fatma Acar

**PART III - OWNERS OF INTEREST**

**13. Informing Owners of Interest**

Owners of interest of the company are regularly informed on matters of interest to them.

Employees of the company are informed through annual meetings held regularly. In addition, developments within the company are announced on a continuous basis through the periodical "Bizim Dünyamız" and "News" published biannually. On the other hand, a comprehensive information effort is carried out through our web-site,

e-bulletins and annual reports.

#### **14. Participation of Owners of Interest in Management**

No particular model has been developed regarding participation of owners of interest in the company's management. Rights of owners of interest are protected by virtue of applicable legislation.

#### **15. Human Resources Policy**

The human resources policy of the company is defined in the manual "Our Policy" issued annually and announced to the employees in annual meetings.

Recruitment criteria to be strictly complied with by the staff in charge of recruitment are defined in writing. The physiological, psychological, and intellectual characteristics required by each job are taken into consideration in the recruitment process. These characteristics are measured and evaluated by a written test. Following the initial evaluation by the human resources department, the candidate is also interviewed by manager of the particular unit to employ the candidate. All employees are treated fairly and equally in terms of training and promotion opportunities, training plans and policies aiming at improving the knowledge, skills and experience of the employees are developed. The employees receive regular training every year.

Job descriptions are developed for every position. Performance and reward criteria are determined on a yearly basis and are implemented upon agreement with the employees. The performance and evaluation system used in measuring and evaluating the individual performance is taken into account during wage and career planning. On the other hand, a certain number of personnel are granted "Golden Badge" as a result of their outstanding performance. And employees winning the "Invention Prize" competition are also awarded. Thus, the creative personnel are motivated. A safe working environment is provided for the personnel and it is improved continuously.

#### **16. Information on Relations with Customers and Suppliers**

Alarko Holding A.Ş. is a holding company providing services to companies in the group. Alarko Holding A.Ş. and the Group Companies within this framework have a customer oriented mission and are constantly measuring and evaluating customer satisfaction. Our personnel are subject to continuous training in order to enhance customer satisfaction.

Quality standards for goods and services are strictly adhered to and maximum care is taken to comply with those standards. Therefore, quality warranty is provided and any goods or services found to be below the quality standards are compensated immediately.

#### **17. Social Accountability**

Alarko Holding A.Ş. is extremely sensitive to social responsibility issues and therefore, acts in accordance with the regulations and ethical rules regarding the environment, consumers and public health. Alarko Holding A.Ş. and the Group Companies operating within its framework and the personnel, experts and subsidiary industries have adopted and apply the principles below in order to protect nature and the environment in all their operations.

- To follow and apply the stipulations of acts, statutes, bylaws and standards regarding the environment.
- To take the necessary measures to prevent air, water, soil and noise pollution in all their operations.
- To protect plant and animal life and ensure the recycling of wastes.
- To cooperate with official and private associations and enterprises to develop policies and systems for environmental protection.
- To maintain research to improve the environment friendly properties of our products and production methods.
- To reduce consumption of natural resources and energy to optimum levels.
- To provide continuous training programs to contribute to and increase the environmental protection awareness of our members. To use the most advanced technology available to attain these objectives.

There is no litigation or warning filed against our company either during the current year or in the past for damages to the environment. The Alarko Education-Culture Foundation established in 1986 to work in the area of education and culture has granted scholarship to a large number of students. Since its establishment, the foundation has granted scholarships to more than 1000 university students and more than 500 high-school students. The Foundations' scholarships are not to be refunded. A total of 100 students were granted scholarships in the 2005-2006 school year.

## **PART IV - BOARD OF DIRECTORS**

### **18. Structure, Composition and Independent Members of Board of Directors**

#### **Board of Directors**

İshak Alaton	Chairman
İzzet Garih	Vice Chairman
Vedat Aksel Alaton	Vice Chairman
Ayhan Yavrucu	Member
Dalia Garih	Member
Leyla Alaton Günyeli	Member
Güner Koçel	Member (Independent)
Işık Biren	Member (Independent)
Ahmet Vural Akışık	Member (Independent)

Three independent members take office in the Board of Directors. Board members are in no way restricted in assuming positions in other organizations or entities not related to the Company.

### **19. Qualifications of Board Members**

Minimum qualifications required in election of Board members comply with the Corporate Management Principles of Capital Markets Board. Articles of Association of the Company contains no such principles as due care is taken in the election of Board members in accordance with the said principles.

### **20. Mission, Vision and Strategic Objectives of the Company**

Rather than being the largest, the main vision of the company is to become one of the strongest, most reliable and respected companies worldwide supplying goods and services of global quality by being honest to the state, the customers, shareholders and employees in all its operations. The company's main mission is to offer goods and services meeting the expectations of its customers and to satisfy its clients, shareholders and employees by integrating information, technology and the human factor in a creative organization. Strategic objectives are developed by the Chief Executive Officer, evaluated by the Audit Consultation and Approval Committee and submitted to the Board of Directors for approval. The realization level of the approved objectives is communicated to the Board and the Audit Consultation and Approval Committee and their realization level is evaluated.

### **21. Risk Management and Internal Control Mechanism**

A risk management and internal control mechanism is set by the Board of Directors. Managerial risks are reviewed periodically by the Audit Consultation and Approval Committee constituted by the members of the Holding's Board of Directors. The said Committee has decided to establish, develop and update an internal control mechanism within the Group in general. In accordance with this decision, the Auditing Group of the Group of Companies has been given the responsibility to supervise the establishment of the internal control mechanism and check its functioning. The Auditing Group inspects the internal control mechanism regularly against the approved annual audit plans and submits its opinion and findings to top management. Furthermore, the Auditing Committee established reviews the said matters and advises the Audit Consultation and Approval Committee accordingly. The Audit Consultation and Approval Committee and the Committee in charge of Auditing determine the measures to be taken and instruct the company's managers via the Chief Executive Officer.

## **22. Powers and Responsibilities of Board Members and Managers**

Powers and responsibilities of Board members and managers are set forth in the company's articles of association.

## **23. Operational Principles of Board of Directors**

The Board has convened 15 times within the year. Actual participation to the meetings was established. Board decisions are taken unanimously. No weighed voting right or negative veto right is granted to the Board members.

## **24. No Business or Competition with the Company**

As per the decision taken at the general assembly, the Board members are not banned to do business or compete with the company within the year.

## **25. Rules of Ethics**

Rules of ethics approved by the Company's Board of Directors and the Audit Consultation and Approval Committee and agreed upon by all Alarko Holding A.Ş. personnel and managers and defined in the ALARKO Group of Companies' Philosophy are summarized herebelow. These rules are concordance with the policies, objectives, procedures and principles of Alarko.

- Acting honestly in all business activities towards the Government, Clients, Shareholders, Personnel, Partners, and Sub- and By- Industries.
- Protecting the environment and maintain the inter-company social balance.
- Orienting the customers without forcing and giving priority to their needs.
- Maintaining high quality at all times, trying to supply the best at the lowest price even when the customers are satisfied and contented with what is already given.
- Achieving the profits deserved by the shareholders under the current conditions.
- Giving priority to teamwork as a corporation performing systematically on the basis of pre-defined procedures, share profit, loss, success and failure.

Our policies are shaped by this philosophy, and this philosophy is affixed at easily visible points in various units of our company and subsidiaries. In addition, all employees are informed through the annual Policy Meeting and Our Policy Book. Our existing and newly recruited personnel are regularly trained on this philosophy and related rules. Our philosophy including the rules of ethics is accessible via the intranet and our web-site [www.alarko.com.tr](http://www.alarko.com.tr). All Alarko Holding A.Ş. personnel are obliged to act in compliance with these rules. Rules of ethics are followed-up by the superiors of all employees in hierarchical order. Employees are responsible of notifying the management of any act or behavior contrary to the rules of ethics immediately. Any contrary act or behavior noticed, notified or suspected by the Board of Auditors, the Auditing Committee, the Chief Executive Officer or other managers are reviewed by the Board of Directors or instructed to be reviewed by the Auditing Committee to ensure compliance therewith. Disciplinary sanctions are applied to doers of actually proven contrary acts by the Chief Executive Officer authorized by the Board of Directors.

## **26. Number, Composition and Independence of Board of Directors' Sub-committees**

The auditing committee is established within the legal term and performs the duties set forth in the communiqué of the Capital Markets Board. The members of this committee are İzzet Garih and Vedat Aksel Alaton.

## **27. Financial Rights Granted to Board of Directors**

No rights or interests are granted to the Board members including remuneration as per the decision of the General Assembly. No money is lent to the company's Board members or managers including credit utilization or suretyship.

# INDEPENDENT AUDITORS' REPORT

## ALARKO HOLDİNG A.Ş. INDEPENDENT AUDITORS' REPORT RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2005 ACCOUNTING PERIOD

We have examined the consolidated balance sheet of Alarko Holding A.Ş. (the Parent Company) as of 31 December 2005 and the consolidated statements of income, shareholders' equity and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards in Turkey issued by the Capital Markets Board and, accordingly, included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

As of 31 December 2005 and 2004, Temzet Üretim İletim A.Ş. and Alarko S.A., subsidiaries in which the Parent Company has 50% and 41,25% interest respectively, and Nevsky Investment Limited, an affiliate in which the Parent Company has 29,60% interest, are excluded from the scope of consolidation as they have low operating volumes and do not materially affect the consolidated financial statements. It has been determined by the resolution of the Board of Directors dated 16 September 2005 that the liquidation process of Ado İnşaat ve Taahhüt Ticaret A.Ş. in which the Parent Company has 50% interest and which was excluded from the scope of consolidation as of 31 December 2004 due to its low operating volume not materially affecting the consolidated financial statements, has been completed and the said resolution has been announced at the Trade Register Gazette Nr. 6403 dated 4 October 2005. Rostov Donsky Dabak Cigarette Plant and Garanti-Koza-Alsim Joint Venture in which the Parent Company has 96,78% and 48,39% interest, respectively, have been included in the consolidation as of 31 December 2005.

As explained in Note 2/(a), the financial statements for the 2005 accounting period are the initial financial statements prepared in accordance with the Capital Markets Board Communiqué Nr. XI/25, hence they are not presented comparatively with the prior year.

As stated in Note 2/(e), foreign exchange gains and interest income stated among the ongoing construction contracts' progress income related to prior years are recognized in the balance sheet as of 31 December 2004 in accordance with the CMB Communiqué Nr. XI/25.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Alarko Holding A.Ş. as at 31 December 2005 and the results of its operations for the year then ended, in conformity with the accounting principles issued by the Capital Markets Board in Communiqué Nr. XI/25.

As stated in Note 43 to the Financial Statements, the Company Management has declared that the profit to be distributed as per the accompanying financial statements is lower than the profit in legal books and for that reason, they have considered the profit distribution based on the accompanying statements.

Istanbul,  
24 March 2006

**Denet Yeminli Mali Müşavirlik A.Ş.**

**DENET**  
Yeminli Mali Müşavirlik A.Ş.

Ömür Günel  
Partner in charge



# ALARKO HOLDİNG A.Ş.

## CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2005 AND 2004 (TRY)

ASSETS	Note	31 December 2005	31 December 2004 *
<b>Current Assets</b>		<b>769.150.643</b>	<b>668.170.455</b>
Liquid Assets	3,4	185.681.920	232.184.775
Marketable Securities (net)	3,5	118.135.026	81.816.689
Trade Receivables (net)	3,7	196.327.694	121.881.758
Receivables from Financial Leasings (net)	8	-	-
Due from Related Parties (net)	3,9	3.106.956	1.450.750
Other Receivables (net)	10	827.379	350.152
Biological Assets (net)	11	-	-
Inventories (net)	3,12	89.183.812	99.613.123
Receivables from Deferred Project Contracts (net)	3,13	155.852.673	111.509.505
Deferred Tax Assets	3,14	-	-
Other Current Assets	15	20.035.183	19.363.703
<b>Long Term Assets</b>		<b>266.608.321</b>	<b>237.003.834</b>
Trade Receivables (net)	3,7	734.514	584.549
Receivables from Financial Leasings (net)	8	-	-
Due from Related Parties (net)	3,9	-	-
Other Receivables (net)	10	-	2.230
Financial Assets (net)	3,16	15.644.952	15.479.298
Goodwill (net)	3,17	(881.339)	(941.365)
Investment Properties (net)	3,18	2.154.349	2.109.400
Real Estates Held for Trading (net)	3,12	-	-
Tangible Assets (net)	3,19	223.105.688	198.801.624
Intangible Assets (net)	3,20	5.624.872	6.356.057
Deferred Tax Assets	3,14	5.314.546	5.411.381
Other Long Term Assets	15	14.910.739	9.200.660
<b>Total Assets</b>		<b>1.035.758.964</b>	<b>905.174.289</b>

\* Expressed in terms of the purchasing power of the Turkish Lira as at 31 December 2004.  
The accompanying notes form an integral part of these consolidated financial statements.

# ALARKO HOLDİNG A.Ş.

## CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2005 AND 2004 (TRY)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2005	31 December 2004 *
<b>Short Term Liabilities</b>		<b>397.837.619</b>	<b>324.498.925</b>
Financial Liabilities (net)	3,6	57.047.592	29.122.502
Current Portion of			
Long Term Liabilities (net)	3,6	6.279.311	6.090.769
Liabilities from Financial Leasings (net)	3,8	475.657	-
Other Financial Liabilities (net)	3,6	524.473	85.836
Trade Payables (net)	3,7	129.768.342	83.895.937
Due to Related Parties (net)	3,9	178.085	1.207.185
Advances Received	3,21	59.927.342	99.098.723
Ongoing Construction			
Contract Income (net)	13	112.700.197	91.297.608
Debt Provisions	3,23	15.601.583	5.939.665
Deferred Tax Liabilities	3,14	-	-
Other Liabilities (net)	10	15.335.037	7.760.700
<b>Long Term Liabilities</b>		<b>43.175.656</b>	<b>35.644.767</b>
Financial Liabilities (net)	3,6	23.915.212	21.065.648
Liabilities from Financial Leasings (net)	3,8	586.634	-
Other Financial Liabilities (net)	3,6	642.605	772.523
Trade Payables (net)	3,7	-	-
Due to Related Parties (net)	3,9	-	-
Advances Received	3,21	5.936.644	5.937.965
Debt Provisions	3,23	12.062.208	7.824.385
Deferred Tax Liabilities	3,14	-	-
Other Liabilities (net)	10	32.353	44.246
<b>MINORITY INTEREST</b>	2,24	<b>93.704.762</b>	<b>85.999.554</b>
<b>SHAREHOLDERS' EQUITY</b>		<b>501.040.927</b>	<b>459.031.043</b>
Share Capital	25,26	16.080.000	16.080.000
Adjustment on Cross Shareholding	25,26	(983.605)	(983.605)
Capital Reserves		290.415.604	290.747.156
Share Premium	-	-	-
Share Premium of Cancelled Shares	-	-	-
Revaluation Fund	-	-	-
Revaluation Fund of Financial Assets	(107.250)	-	(193.678)
Differences Arising from Inflation Adjustment in Shareholders' Equity	27	290.522.854	290.940.834
Profit Reserves	29	18.536.850	12.886.172
Legal Reserves		820.935	452.478
Statutory Reserves		-	-
Extraordinary Reserves		18.457.091	12.433.694
Special Reserves		-	-
Profit on Disposal of Tangible Assets and Investments to Be Added to Share Capital		-	-
Foreign Currency Translation Differences		(741.176)	-
Net Profit/(Loss) for the Period		60.238.872	-
Retained Earnings / (Accumulated Losses)	30	116.753.206	140.301.320
<b>Total Liabilities and Shareholders' Equity</b>		<b>1.035.758.964</b>	<b>905.174.289</b>

\* Expressed in terms of the purchasing power of the Turkish Lira as at 31 December 2004.

**ALARKO HOLDİNG A.Ş.****CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(TRY)**

<b>INCOME FROM PRINCIPAL ACTIVITIES</b>	<b>Note</b>	<b>31 December 2005</b>
Income From Sales (net)	37	569.751.637
Cost of Sales (-)	37	(495.864.676)
Service Income (net)	37	-
Other Income From Principle Activities/interest+dividend+rent (net)		-
<b>GROSS PROFIT FROM PRINCIPAL ACTIVITIES</b>		<b>73.886.961</b>
Operating Expenses (-)	38	(49.616.896)
<b>NET PROFIT FROM PRINCIPAL ACTIVITIES</b>		<b>24.270.065</b>
Other Income and Profits	39	99.540.513
Other Expense and Losses (-)	39	(46.136.197)
Financial Expenses (-)	40	(4.184.351)
<b>OPERATING PROFIT</b>		<b>73.490.030</b>
Net Monetary Profit/(Loss)	41	-
<b>MINORITY INTEREST</b>	2,24	<b>(5.622.759)</b>
<b>PROFIT BEFORE TAX</b>		<b>67.867.271</b>
Taxes	3,42	(7.628.399)
<b>NET PROFIT FOR THE PERIOD</b>		<b>60.238.872</b>
<b>EARNINGS PER SHARE</b>	3,43	<b>3,990</b>

The accompanying notes form an integral part of these consolidated financial statements.

# ALARKO HOLDİNG A.Ş.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005 (TRY)

	Note	31 December 2005
<b>A. CASH FLOWS FROM PRINCIPAL ACTIVITIES</b>		
Net Profit Before Tax (+)		67.867.271
<b>Adjustments:</b>		
Amortization (+)		19.496.260
Termination Indemnity		1.679.409
Provision for Debts		8.525.088
Profit from Foreign Currency Exchange (-)		-
Profit from Marketable Securities or Long Term Investment (-)		(61.116)
Goodwill Amortization (-)		(60.026)
Income on Disposal of Tangible Assets		-
Interest Income (-)		(9.544.626)
Interest Expense (+)		-
<b>Net Income Before Working Capital Changes (+)</b>		<b>87.902.260</b>
Increase in Trade Operations and Other Receivables (-)		(74.595.901)
Increase in Balances due from Related Parties and Shareholders (-)		(1.656.206)
Decrease in Inventories (+)		10.429.311
Increase in Other Receivables (-)		(474.997)
Increase in Other Current Assets (-)		(6.381.559)
Increase in Balances due from Ongoing Construction Contracts (-)		(44.343.168)
Increase in Trade Payables(+)		45.872.405
Decrease in Balances due to Related Parties and Shareholders (-)		(1.029.100)
Decrease in Advances Received (-)		(39.172.702)
Increase in Ongoing Construction Contract Income (+)		21.402.589
Increase in Other Liabilities (+)		7.562.443
Net Cash Related to Principal Activities (+)		-
Interest Payments (-)		-
Tax Payments (-)		(3.836.319)
<b>Net Cash Provided From/Used in Principal Activities</b>	<b>44</b>	<b>1.679.056</b>
<b>B. CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Acquisition of Financial Assets, net(-)		(165.654)
Acquisition of Marketable Securities (-)		(36.318.337)
Acquisition of Tangible Assets, net (-)		(41.877.322)
Acquisition of Investment Properties (-)		(143.993)
Acquisition of Real Estates to be Held for Trading (-)		-
Cash Inflows Related to Disposal of Tangible Assets (+)		-
Increase in Intangible Assets, net (-)		(1.092.773)
Interest Received (+)		9.544.626
Dividend Received (+)		61.116
<b>Net Cash Provided From/Used in Investing Activities</b>	<b>44</b>	<b>(69.992.337)</b>
<b>C. CASH FLOWS FROM FINANCIAL ACTIVITIES</b>		
Cash Inflows Related to Issuance of Capital Stock (+)		-
Cash Inflows Related to Short and Long Term Liabilities (+)		-
Increase in Leasing Liabilities (+)		1.062.291
Increase in Financial Liabilities (+)		31.271.915
Value Decrease in Financial Assets (-)		(2.035.985)
Effect of Companies Included in the Consolidation		214.650
Effect of Consolidation Rate Change		(15.379.089)
Foreign Currency Translation Differences		(741.176)
Effect of Consolidation by Equity Method		(287.388)
Dividends Paid (-)		-
Increase in Minority Interest (+)		7.705.208
<b>Net Cash Provided From/Used in Financial Activities</b>	<b>44</b>	<b>21.810.426</b>
Decrease in Liquid Assets (-)	<b>3</b>	(46.502.855)
Liquid Assets at the Beginning of the Period	<b>4</b>	232.184.775
<b>Liquid Assets at the End of the Period</b>	<b>4</b>	<b>185.681.920</b>

The accompanying notes form an integral part of these consolidated financial statements.

ALARKO HOLDING A.Ş.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(TRY)

	Share Capital	Adjustment on Cross Shareholding	Differences Arising from Inflation Adjustment on Shareholders' Equity	Revaluation Fund of Financial Assets	Legal Reserves	Extraordinary Reserves	Prior Year Profit	Foreign Currency Translation Differences	Profit for the Period	Total
Balance as at 31 December 2004 *	16.080.000	(983.605)	290.940.834	(193.678)	452.478	12.433.694	140.301.320	-	-	459.031.043
Effect of consolidation by equity method	-	-	-	-	-	248.023	(535.411)	-	-	(287.388)
Value increase/decrease in financial assets	-	-	-	86.428	-	-	(2.122.413)	-	-	(2.035.985)
Transfer to reserves	-	-	(417.980)	-	368.457	5.775.374	(5.725.851)	-	-	-
Effect of companies included in the consolidation	-	-	-	-	-	-	214.650	-	-	214.650
Effect of consolidation rate change	-	-	-	-	-	-	(15.379.089)	-	-	(15.379.089)
Foreign currency translation differences	-	-	-	-	-	-	-	(741.176)	-	(741.176)
Net profit	-	-	-	-	-	-	-	-	60.238.872	60.238.872
<b>Balance as at 31 December 2005</b>	<b>16.080.000</b>	<b>(983.605)</b>	<b>290.522.854</b>	<b>(107.250)</b>	<b>820.935</b>	<b>18.457.091</b>	<b>116.753.206</b>	<b>(741.176)</b>	<b>60.238.872</b>	<b>501.040.927</b>

\* Expressed in terms of the purchasing power of the Turkish Lira as at 31 December 2004.  
The accompanying notes form an integral part of these consolidated financial statements.

# ALARKO HOLDİNG A.Ş.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2005

### 1. Organization and Principal Activities

Alarko Holding A.Ş. (the Parent Company) has been established in 1972 and its subsidiaries, affiliates, and jointly controlled entities operate in different fields such as contracting, construction, land development, industry, commerce, tourism, energy, and production and trading of fishery products. In the following sections, Alarko Holding A.Ş. and its subsidiaries, affiliates and jointly controlled entities whose financial statements are subject to consolidation will be referred to as "Alarko Group/the Group".

The names, principal activities and the direct/indirect shareholdings of subsidiaries, affiliates and jointly controlled entities which are subject to consolidation are as follows:

Name of the Company	Principle Activity	Shareholding of the Group (%)
Alsim Alarko San. Tes. ve Tic. A.Ş. (Turkey)	Contracting and Construction	96,78
Aldem Alarko Konut İnşaat ve Tic. A.Ş. (Turkey)	Building, Construction	96,68
Attaş Alarko Turistik Tesisler A.Ş. (Turkey)	Touristic Facility Management	95,01
Yıltaş Yıldız Turistik Tesisler ve Ticaret A.Ş. (Turkey)	Building, Construction	67,12
Alarko Fenni Malzeme Satış ve İmalat A.Ş. (Turkey)	Marketing of Industrial Products and After-Sales Services	65,55
Almüt Alarko Sınai Gereçler İmalat ve Müm. A.Ş. (Turkey)	Production, Marketing and Dealership of Technical Equipment	65,45
Alamsaş Alarko Ağır Makina Sanayii A.Ş. (Turkey)	Production of Machinery and Equipment for Industrial Investments	52,97
Alarko Gayrimenkul Yatırım Ort. A.Ş.** (Turkey)	Purchase and Sales of Real Estates and Market Tools Related to Real Estates	49,32
Construction of Alsim-Moscow Pediatric Hospital (Russia)	Construction of Oncology Hospital for Children in Moscow-Russia	96,78
Alsim-Kazakhstan - Astana Branch (Kazakhstan)	Construction Project of Kazakhstan-Astana Airport	96,78
Alsim-Aktobe Branch (Kazakhstan) ***	Rehabilitation Project of Roads between Kazakhstan - Western Kazakhstan	96,78
Construction Project of Alsim-Bishkek Almaty Road (Kazakhstan)	Road Construction Project	96,78
Alsim-Algeria Arzew Desalination and Power Plant Construction (Algeria)	Algeria-Arzew Desalination Project	96,78
Rostov Donsky Dabak Cigarette Plant Project (Russia)	Cigarette Plant Construction	96,78
Alsim - TCDD (Turkey)	TCDD Ankara-Eskişehir Railway Rehabilitation Project	96,78

\* Included in the consolidation by Full Consolidation method.

\*\* Public company listed in the Istanbul Stock Exchange.

\*\*\* Indirect shareholding which was formerly 72,58% has been changed to 96,78%.

Name of the Company	Principle Activity	Shareholding of the Group (%)
Jointly Controlled Entities* :		
Alarko Carrier Sanayi ve Ticaret A.Ş.**(Turkey)	Heating, Cooling , Air conditioning Equipment Manufacturing	42,09
Altek Alarko Elektrik Sant. Tes. İşl. ve Tic. A.Ş. (Turkey)	Power Generation	38,44
ОАО Мосаларко(Russia)	Russia-Real Estate Project, Construction and Usage	50,00
Alsim-Rosneftegastro JSC İş Ort. (Turkey)	DSİ Melen Water Supply Project Construction	77,42
Alsim-E.M.İ.T. SpA İş Ort. (Turkey)	İzmit Bay Waste Water Distillation Plant Construction	38,71
Alsim-Akfen İnşaat Tur. ve Tic. A.Ş. İşl. Ort. (Turkey)	Tüpraş İzmit Refinery Sulphur Reduction Project Construction	48,39
Streicher-Haustad & Timmermann Günsayıl-Alsim A.Ş. (Turkey)	Bakü-Tiflis- Ceyhan Crude Oil Pipe Line Project	48,39
Garanti Koza Alsim Joint Venture (Turkey)	Underground Construction	48,39
Obrascon Huarte Alsim SA - Alsim Alarko San.Tes. ve Tic. A.Ş (Spain)	TCDD Ankara - Eskişehir Railway Rehabilitation Project	43,55
Affiliates ***		
Alfarm Alarko Leröy Su Ürünleri San. ve Tic. A.Ş. (Turkey)	Production and Marketing of Fishery Products	40,96
Al-Riva Projesi Arazi Değ. Konut İnş. ve Tic. A.Ş.**** (Turkey)	Residence, Construction	12,12
Al-Riva Arazi Değ. Konut İnş. ve Tic. A.Ş.**** (Turkey)	Residence, Construction	2,62
Al-Riva Arazi Değ. Konut İnş., Tur. Tes. Golf İşl. ve Tic. A.Ş. **** (Turkey)	Residence, Construction and Touristic Facility Management	2,28

\* Included in the consolidation by joint control method.

\*\* Public company listed in the Istanbul Stock Exchange.

\*\*\* Included in the consolidation by equity method.

\*\*\*\* The Parent Company has 40% interest in these affiliates.

The address of the Parent Company's head office is as follows:  
Muallim Naci Cad. No : 69 Ortaköy/ İSTANBUL

As of 31 December 2005 and 2004, the shareholding structure of the Parent Company is as follows (TRY):

Name	31 December 2005 Shareholding	31 December 2004 Shareholding
Anmak Holding A.Ş.	% 69,40	% 73,88
Other	% 30,60	% 26,12
	<u>100,00</u>	<u>100,00</u>

\* Represents shareholdings of less than 10%.

The shares of Alarko Holding A.Ş. are traded at the Istanbul Stock Exchange since 24 May 1989 and 30,50% of the Company shares are offered to public as of 31 December 2005.

Alarko Carrier Sanayi ve Ticaret A.Ş., a jointly controlled entity, is registered at the Capital Markets Board (CMB) and 15,94% of its shares are offered to public. The shares are traded at the Istanbul Stock Exchange since 27 January 1992.

The subsidiary, Alarko Gayrimenkul Yatırım Ortaklığı A.Ş., is registered at the Capital Markets Board (CMB) and 49% of its shares are offered to public. The shares are traded at the Istanbul Stock Exchange since 1996.

The average number of employees during the period with respect to categories is as follows:

	31 December 2005	31 December 2004
Salary earners	1.456	2.136
Wage earners	1.429	2.680
	2.885	4.816

## 2. Presentation of the Financial Statements

### (a) Basis of Presentation:

"The Communiqué Related to the Accounting Standards in Capital Markets" Nr. XI/25 issued by the Capital Markets Board dated 15 November 2003 has come into force effective from the financial statements for the first interim period ended subsequent to 1 January 2005. As the financial statements relating to the year ended 31 December 2005 are the initial financial statements prepared by the Company in accordance with the Communiqué Nr. XI/25, the accompanying financial statements may not be presented comparatively with the financial statements for the same period of the previous year per the ruling of the Capital Markets Board dated 27 April 2004 /MSD-10/303-9009. For this reason, the accompanying financial statements related to the accounting period 1 January 2005 - 31 December 2005 are not presented comparatively with the accounting period 1 January 2004 - 31 December 2004, whereas the balance sheet as of 31 December 2005 has been prepared comparatively with the balance sheet as of 31 December 2004. On the other hand, as per the resolution of the CMB dated 17 March 2005 Nr. 11/367, the application of inflation adjustment on financial statements has ended in 2005. For this reason, the financial statements have been expressed in terms of the purchasing power of the Turkish Lira as at 31 December 2004. The accompanying financial statements and notes have been presented with the formats held mandatory by the announcement made by the CMB on 10 December 2004.

The Company maintains its books of account and prepares its statutory financial statements in accordance with the prevailing commercial and financial legislation. As stated below, certain adjustments and reclassifications have been made during the preparation of the accompanying financial statements in order to comply with the Communiqué Nr. XI/25. The adjustments reflected to the accompanying financial statements are summarized in Note 2 (b) and 2 (d).

The functional currencies of the subsidiaries and jointly controlled entities of the Company operating in Russia, Algeria, and Kazakhstan are Ruble, Dinar and Tenge, respectively. With respect to the CMB Communiqué Nr. XI/25, the balance sheet items are translated into TRY at the foreign exchange rate at the balance sheet date, and income and expenses are translated at the yearly average rate. Profits or losses arising from translation are stated in the "foreign currency translation differences" account under the shareholders' equity.

### (b) Adjustment of Financial Statements During Hyper-Inflationary Periods:

Section 15 of the Communiqué Nr. XI/25 deals with the effects of inflation on financial statements and requires that financial statements prepared in the currency of a high inflation economy be stated in terms of the measuring unit current at the balance sheet date and that corresponding figures for previous periods be restated in the same terms. With respect to the same directive, in case where the price index at the balance sheet date is 100% or more than the index valid at the beginning of the third previous accounting period, and where the price index at the balance sheet date is 10% or more than the index at the beginning of the current period, hyper-inflationary period starts from the current period onwards. The last three years cumulative inflation rate in Turkey (31 December 2005 - 31 December 2002) are announced by the State Institute of Statistics (SIS) (whose title has changed as Turkish Statistical Institution (TSI) as of 10 November 2005) as 35,6% on the basis of price indices published for the whole country and as 4,54% as at the beginning of the accounting period (31 December 2005 - 31 December 2004), and as per the resolution of the CMB dated 17 March 2005 Nr. 11/367 the application of inflation adjustment of the financial statements has ended in 2005, hence the accompanying consolidated financial statements are restated at the purchasing value of the Turkish Lira as at 31 December 2004.

The restatement of the accompanying consolidated financial statements in Turkish Lira as at 31 December 2004 is calculated by means of conversion factors derived from the countrywide wholesale price index published by the SIS. Such indices and conversion factors are as follows:

Date	Index	Conversion Factor
31 December 2001	4.951,7	1,70
31 December 2002	6.478,8	1,30
31 December 2003	7.382,1	1,14
31 December 2004	8.403,8	1,00

The following principles have been applied in the preparation of the restated financial statements as of 31 December 2004:

- Financial statements are stated in terms of the measuring unit current at 31 December 2004 and the corresponding figures for the previous periods are restated in the same terms.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities are restated by applying the relevant conversion factors.
- The effect of general inflation is included in the statement of income as "Net Monetary Gain / (Loss)".



**(c) Consolidation Principles:**

Consolidation is realized within the Parent Company, Alarko Holding A.Ş. and the direct and indirect shareholdings of the Parent Company within its affiliates, subsidiaries, and jointly controlled entities are as follows:

	2005	2004
<b>Subsidiaries*</b>		
Alsim Alarko San.Tes. ve Tic. A.Ş.	96,78 %	96,78 %
Aldem Alarko Konut İnşaat ve Tic. A.Ş.	96,68 %	96,68 %
Ataş Alarko Turistik Tesisler A.Ş.	95,01 %	95,01 %
Yıltaş Yıldız Turistik Tesisler ve Tic. A.Ş.	67,12 %	67,12 %
Alarko Fenni Malzeme Satış ve İmalat A.Ş.	65,55 %	65,55 %
Alarko Sınai Gereçler İmalat ve Müm. A.Ş.	65,45 %	65,45 %
Alamsaş Alarko Ağır Makina Sanayii A.Ş.	52,97 %	52,97 %
Alarko Gayrimenkul Yatırım Ort. A.Ş.	49,32 %	49,32 %
Alsim-Moskova Pediatric Hospital Construction	96,78 %	96,78 %
Alsim-Kazakhstan-Astana Branch	96,78 %	96,78 %
Alsim-Aktobe Branch	96,78 %	72,58 %
Alsim-Bishkek Almaty Road Construction Project	96,78 %	96,78 %
Alsim-Algeria-Arzew Desalination and Power Plant Construction	96,78 %	96,78 %
Rostov Donsky Dabak Cigarette Plant	96,78 %	-
Alsim TCDD Turkey	96,78 %	43,55 %
<b>Jointly Controlled Entities**</b>		
Alarko Carrier Sanayi ve Ticaret A.Ş.	42,09 %	42,09 %
Altek Alarko Elektrik Sant. Tes. İşl. ve Tic. A.Ş.	38,44 %	38,44 %
OAQ Mosalarko	50,00 %	50,00 %
Alsim-Rosneftegastroy JSC. İş Ort.	77,42 %	77,42 %
Alsim-E.M.İ.T. SpA İş Ort.	38,71 %	38,71 %
Alsim-Akfen İnşaat Tur. ve Tic. A.Ş. İş Ort.	48,39 %	48,39 %
Obrascon Huarte Lain SA - Alsim		
Alarko San. Tes. ve Tic. A.Ş. (Spain)	43,55 %	43,55 %
Streicher-Haustad & Timmermann		
Günsayıl-Alsim A.Ş.	48,39 %	19,36 %
Garanti - Koza - Alsim Joint Venture	48,39 %	-
<b>Affiliates***</b>		
Alfarm Alarko Leröy Su Ürünleri San. ve Tic. A.Ş.	40,96 %	40,96 %
Al-Riva Projesi Arazi Değ. Konut İnş.ve Tic. A.Ş.	12,12 %	12,15 %
Al-Riva Arazi Değ. Konut İnş. ve Tic. A.Ş.	2,62 %	2,63 %
Al-Riva Arazi Değ. Konut İnş. Tur. Tes. Golf İşl. ve Tic. A.Ş.	2,28 %	2,28 %

\* Included in the accompanying consolidated financial statements by full consolidation method.

\*\* Included in the accompanying consolidated financial statements by joint control method.

\*\*\* Included in the consolidated financial statements as per the equity method.

Consolidated financial statements have been prepared on the basis of principles stated below:

**Full Consolidation Method:**

- All balance sheet items except for the paid in capital of the Parent Company and the subsidiaries as well as their equities at the acquisition date are added, and inter-company balances are eliminated.
- The Parent Company's interest in the subsidiaries is reciprocally set off from The Long Term Financial Assets account of the Parent Company and the Share Capital accounts of the Subsidiaries.
- As of the acquisition date, the acquisition cost of the Parent Company's shareholding in its subsidiaries is net off against the portion of share capital it owns in the subsidiary's equity for once. The equity of the subsidiary at the acquisition date should be drawn up according to the market value of the subsidiary's net assets at that date. If the cost value of the Parent Company's shareholding in its subsidiary is more than the nominal value of the part of the share capital in the subsidiary's equity, the difference is recorded as positive goodwill in the asset side of the consolidated balance sheet as a separate item and it is amortized over the useful life of the future economic benefits that are expected to flow to the Parent Company. The amortization period cannot exceed 20 years. If the cost value of the investment is less than the nominal value of the share capital of the subsidiary, the difference is recorded as negative goodwill in the assets as a negative item and is also amortized over 20 years at maximum.

- Minority interests are deducted from all equity account group items including the paid in/issued share capital of subsidiaries included in the consolidation and are recognized as "Minority Interests" in the consolidated balance sheet before the equity account group and in the statement of income.
- The purchases and sales among the Parent Company and its Subsidiaries and the profit and losses arising from these transactions are eliminated in the Consolidated Income Statement. Further, profit and losses arising from the purchase or sale of marketable securities, stocks, tangible and intangible assets, long term financial assets and other assets among the consolidated group companies are also eliminated.

#### **Joint Control Method**

- Assets, liabilities, and shareholders' equity as well as income and expenses stated in the financial statements of jointly controlled entities within the scope of consolidation are subject to consolidation in respect of the rate of interest of the Parent Company within these entities and the consolidated financial statements are prepared upon consolidation adjustments made accordingly.
- The Parent Company's shareholding within these entities is set off from Long Term Financial Assets of the Parent Company and the Share Capital account in the jointly controlled entities.

#### **Equity Method:**

- Affiliates are stated at the acquisition cost.
- For the period starting as of the date the affiliate is acquired by the Parent Company until the balance sheet date, the Parent Company's share of the increases and decreases in the affiliate's equity are either added to or deducted from the acquisition cost of the affiliate. The increases and decreases corresponding to the equity share in comparison with the acquisition cost are stated in the income statement as profit and loss, respectively. In case where the differences arise from equity items other than profit and loss, adjustments in the relevant items need also to be made in the shareholders' equity of the Parent Company. The dividends received from affiliates are deducted from the related investments.
- As of the acquisition date and the subsequent acquisitions of shares, the positive or negative difference between the acquisition value of the affiliate's shares owned by the Parent Company and the value stated in the shareholders' equity account of the affiliate's balance sheet prepared on the basis of the fair values of such shares is recorded as goodwill for once in the consolidated balance sheet as separate items and amortised as defined in the full consolidation method. Goodwill and amortisation calculations for the affiliates acquired in the prior periods are made, and the results are reflected in the profit and loss of the prior periods.

#### **(d) Adjustments :**

The accompanying consolidated financial statements have been prepared in accordance with the Communiqué Nr. XI/25 with the below mentioned adjustments which are not stated in the statutory records:

- Provision for doubtful receivables
- Provision for trademark and royalty
- Inventory provision
- Rediscount calculation on maturity cheques, notes receivable, customers, and suppliers
- Discount on loans as per the effective interest method
- Depreciation adjustment
- Termination indemnity adjustment
- Deferred tax adjustment
- Evaluation of listed financial assets as per the market value
- Recognition of contract income as income and expense as per the percentage of completion method
- Elimination of inter group balances and transactions as per the consolidation procedure
- Leasing adjustment

#### **(e) Comparative Information and Adjustment of Financial Statements for the Prior Period:**

Balance sheets as of 31 December 2005 and 2004 and notes to these balance sheets have been presented comparatively. In order to comply with the presentation of the current period financial statements, the comparative information is reclassified when deemed necessary. Prior year foreign exchange differences and interest income included in the contract prices have been adjusted in the balance sheet dated 31 December 2004 as per the Section 24 of the CMB Communiqué Nr. XI/25. The effect of the said adjustment entries in the balance sheet dated 31 December 2004 is reflected in the receivables from ongoing construction contracts and in the ongoing construction contract prices as TRY 644.537 and TRY 44.411.460 of decrease, respectively, and in the deferred tax assets, minority interest and retained earnings as TRY 301.572, TRY 1.283.988, and TRY 42.095.009 of increase, respectively.

In Article 141 of the CMB Communiqué Nr. XI/25, it is stated that the inventories include assets held for sale during the normal sequence of activities or those within the manufacturing process and in Article 587 of the Communiqué, it is stated that real estates held for sale or constructed and restored for sale during the normal sequence of activities, real estates acquired or restored exclusively for sale in the near future and real estates constructed or restored on behalf of third parties should be recognized as inventories. Similarly, in Article 159 of the Communiqué, it is stated that "Assets constructed by the Company are subject to the same provisions with the acquired assets. In the event that the Company produces and 'constructs' similar assets within the scope of the 'Inventories' section due to the necessities originating from its usual activities, the acquisition cost of these assets is generally equivalent to the acquisition cost of the assets produced and 'constructed' for sale". Furthermore, as stated in the CMB ruling dated 01.02.2006 / Nr. B.02.1.SPK.0.15-49, if the real estates or real estate projects are included in the portfolio for the purpose of trading, they should be

recognized as stocks and stated in the "Current Assets" of the financial statements. Accordingly, the real estates and real estate projects classified under the heading "Real Estates Held for Trading" included in the "Long Term Assets" account group in 2005 interim accounting periods and the financial statements as of 31 December 2004 presented for comparison purposes have been classified by the Alarko Group under the "Inventories" account stated under the "Current Assets" account group in the financial statements as of 31 December 2005 and the financial statements and notes to the financial statements for the period ended 31 December 2004 .

Within this frame, real estate and real estate projects held for trading will be followed up under the "Inventories" account, and the assets subject to new classification are subject to evaluation as per the "Inventories" section of the Communiqué.

Accordingly, inventories are stated at cost adjusted as per the inflationary effects. However, the expertise value, which constitutes the basis of fair value of inventories, is compared with the adjusted acquisition costs, and in the event that the expertise value is lower than the adjusted value, provision is made for value decrease as per the provisions stated in the "Impairment of Assets" section. Such impairment is determined and applied for all stocks separately.

As the valuation of assets classified under "Real Estates held for Trading" in prior periods is made by using the same method within the frame of the above definition, there was no variance between the valuation of assets in "Inventories" account and the valuation made as per the prior accounting policy, hence this classification has not created any monetary effect.

#### **(f) Netting Off:**

Netting off of financial assets and liabilities can only be made under the conditions where the netting transaction is legally allowed and the company has an intention in this respect or where the acquisition of assets and fulfillment of liabilities are realized simultaneously

### **3. Accounting Techniques and Valuation Procedures Applied**

#### **(a) Financial Instruments :**

##### **i. Liquid Assets**

Liquid assets consist of cash, bank accounts, cheques received, and other liquid assets.

Cash is composed of New Turkish Lira and foreign currency balances. The New Turkish Lira balances are stated at face values, and the foreign currency balances are translated into New Turkish Lira at the foreign currency purchasing rate issued by the Central Bank as at the balance sheet date.

Bank accounts consist of demand and time deposit accounts and the related interest accrued. New Turkish Lira deposit accounts are stated at face values and foreign currency accounts are translated into New Turkish Lira at the foreign currency purchasing rate issued by the Central Bank as at the balance sheet date.

The cheques received with maturity dates exceeding the balance sheet date are stated in trade receivables and are rediscounted at a rate equivalent to the interest rate of government bonds constituted in stock markets or other organized markets. Cheques denominated in foreign currency are subject to rediscount at Libor, Euribor and Tibor rates.

##### **Fair Value**

Fair value is the amount for which a financial instrument could be exchanged between two willing parties in an arm's length transaction. It is primarily considered the same as the quoted value of the financial instrument; however in case there is no quoted value, the purchase or sales value of an instrument is deemed to be the fair value of the financial instrument.

As the foreign currency cash and cash equivalents are translated into New Turkish Lira at the foreign exchange rates valid at the balance sheet date, it is assumed that the fair values of these assets approximate to their book values.

As the deposit accounts, cash and cheques received are converted into cash in very short terms, and as there is no risk of value decrease, their book values are deemed to approximate to their fair values.

##### **ii. Trade Receivables**

Trade receivables are financial assets created by the Alarko Group through selling goods and services directly to the customers. Trade receivables are subject to rediscount.

##### **Fair Value**

Rediscounted trade receivables and doubtful receivables for which provisions are accrued are assumed to approximate to the fair values of these assets.

##### **iii. Related Parties**

Receivables from and payables to related parties are the balances with the Alarko Group shareholders and the parties known to be controlled by or related to the Alarko Group shareholders.

##### **iv. Short and Long Term Bank Loans and Trade Payables**

Short and long term bank loans are stated at the value computed through addition of the principal amount and the interest expenses accrued as of the balance sheet date, discounted as per the effective interest method. Trade payables are financial liabilities created by the Alarko Group through purchasing goods and services directly from the suppliers and are stated at their discounted values.

##### **Fair Value**

The fair value of the short and long term bank loans are assumed to be equivalent to the recorded values computed by adding the accrued interest liabilities calculated over the prevailing interest rate as of the balance sheet dates on the cost of the mentioned financial debts. Similarly, discounted values of trade payables are considered to be equivalent to their fair values.

**(b) Financial Derivatives and Preventive Instruments:**

Alarko Group uses financial derivatives within the frame of risk management and recognizes preventive instruments as cash flow hedging. Cash flow hedging can be used against specific risks in relation to an asset, a liability or a forecast transaction and represents a hedging instrument against variances in cash flows that may affect the reported profit/loss. However, conditions for hedge accounting are not fulfilled. The contract price for one of the ongoing projects of the Alarko Group is denominated in USD, however, the costs arising from majority of the related activities will be incurred on EURO basis. In order to provide hedging against any potential change in USD/EURO cross rate, USD/EURO American Type Option is bought.

**(c) Financial Risk Management:**

## i. Interest Risk

The financial loan agreements of Alarko Group are based on USD, Euro and JPY and the interest rate is fixed. It is assumed that the reference interest rate will not change substantially as the payments are made in foreign currency and for that reason, the interest rate risk is presumed to stay at a negligible level.

## ii. Foreign Currency Risk

Balances of foreign currency transactions of Alarko Group arising from the operations, investment and financial activities as of the reporting date are stated in note 28. Alarko Group may be exposed to foreign currency risk in relation to the receivables and payables in foreign currency upon changes in foreign currency exchange rates. The said foreign currency risk is followed up and kept under controlled limits through continuous analysis of foreign currency position and by hedging method.

## iii. Doubtful Receivables Risk

Alarko Group has made provisions for doubtful receivables occurred until the reporting date.

## iv. Liquidity Risk

The excess portion of the liquid assets (current assets - stocks) over the short term payables is stated below in relation to the corresponding periods (TRY):

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31 December 2005	282.129.212
31 December 2004	244.058.407

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**(d) Inventories:**

Inventories are stated at the lower of cost and net realizable value. Cost is determined by using the weighted average cost method for the raw material, supplies, semi - finished products, finished products, merchandise and other stocks.

As stated in Note 2(e), the real estates and real estate projects classified under the heading "Real Estates Held for Trading" included in the "Long Term Assets" account group in 2005 interim accounting periods and the financial statements as of 31 December 2004 presented for comparison purposes have been classified by the Alarko Group under the "Inventories" account stated under the "Current Assets" account group in the financial statements as of 31 December 2005 and the financial statements and notes to the financial statements for the period ended 31 December 2004. Within this frame, real estate and real estate projects held for trading will be followed up under the "Inventories" account, and the assets subject to new classification are subject to evaluation as per the "Inventories" section of the Communiqué.

Accordingly, real estates held for trading are stated at cost adjusted as per the inflationary effects. However, the expertise value, which constitutes the basis of fair value of real estates held for trading, is compared with the adjusted acquisition costs, and in the event that the expertise value is lower than the adjusted value, provision is made for value decrease as per the provisions stated in the "Impairment of Assets" section. Such impairment is determined and applied for all real estates held for trading separately.

**(e) Marketable Securities**

Alarko Group has classified its marketable securities as financial assets held for trading and held until the maturity date. Financial assets held for trading are those that are acquired for the purpose of generating profit through fluctuations in price or similar elements created in the market within short term, or those that are a part of a portfolio aimed to generate profit in short term, regardless of any reason for acquisition. Financial assets held for trading are initially reflected to the balance sheet at their cost values including the transaction costs and evaluated at their market value in the succeeding periods. In the event that the prices providing basis for the market value are not realized under the prevailing market conditions, it is affirmed that the market value cannot be determined reliably, and the values calculated by using the determinant prices issued by the Turkish Central Bank are considered as the market values. Therealized and unrealized gains and losses are recognized in the statement of income.

Financial assets held for trading consist of private sector marketable securities investment fund participation documents and they are valued over the acquisition price issued by the related investment fund at the balance sheet date.

Government bonds with fixed or predetermined payment conditions and fixed maturities which are meant to be held until the maturity date for which the necessary conditions including the funding capacity are fulfilled in order to be held until the maturity date are classified as financial assets to be retained until the maturity date. The initial recording of the investments to be retained until maturity is stated at cost. Investments to be held until the maturity are stated at their values discounted by using the effective interest rate method.

**(f) Financial Assets :**

Alarko Group has classified its financial assets as financial assets available for sale.

Financial assets available for sale are those assets other than the loans and receivables, held-to-maturity investments and held for trading investments. Financial assets available for sale are valued at their fair value in the periods subsequent to the initial recognition.

Financial assets available for sale representing shareholdings in which the direct and indirect votes of the Group is below 20% or with insignificant influence even if above 20%, or those that do not have material effect on consolidated financial statements, or are not traded in the consolidated active markets or whose fair values cannot be determined reliably, are reflected in the consolidated financial statements as of 31 December 2004 at their restated cost values, less provision for value decrease, if any (except for those stated by the equity method). Financial assets available for sale which are traded at stock markets and whose fair values can be calculated reliably are recognized in the consolidated financial statements at their fair values.

Profits and losses originating from changes in the fair value of financial assets available for sale are stated in the financial assets value increase fund account within the consolidated statement of shareholders' equity.

**(g) Tangible Assets :**

Tangible assets are stated at cost less their accumulated depreciation. Tangible assets have been restated using the measuring unit current at 31 December 2004 based on the dates of acquisition. Depreciation of tangible assets is made over the inflation-adjusted amounts on a straight-line basis based on the estimated useful lives of these assets. The depreciation periods, which approximate to the economic useful lives of the assets are as follows:

Buildings	3-50 years
Land improvements	4-50 years
Machinery, plant and equipment	2-40 years
Motor vehicles	2-40 years
Furniture and fixtures	2-33 years
Other tangible assets	2-33 years

**(h) Intangible Assets :**

Intangible assets are stated at cost less their accumulated amortization. Intangible assets have been restated using the measuring unit current at 31 December 2004 based on the dates of acquisition. Amortization of intangible assets is made over the totals adjusted with respect to inflation accounting, considering the approximate useful lives of the assets as stated in the following:

Rights	2-21 years
Special costs	2-19 years
Other intangible assets	5 years

**(i) Leased Assets and Leasing Liabilities :**

The Alarko Group recognizes assets acquired through financial leasing in the consolidated balance sheet at the lower of the fair value of the related assets and the current value of the minimum lease payments as at the balance sheet date. In the calculation of the current value of the minimum lease payments as at the balance sheet date, the valid interest rate in the financial leasing transaction is used in discounting the lease payments related to future periods. As of the balance sheet date, leasing liabilities related to the principal amount are stated in the balance sheet as short and long term with respect to their maturities and the interest expenses related to the current period are attributed to the statement of income.

Assets acquired through financial leasing are included in the related tangible assets account in the consolidated balance sheet and are subject to depreciation as per the lower of their economical life and the leasing period.

**(j) Assets and Liabilities in Foreign Currency :**

Assets and liabilities in foreign currency are translated into New Turkish Lira at foreign currency purchasing rates and selling rates respectively as announced by the Turkish Central Bank as at the balance sheet dates. Transactions in foreign currencies during the period are translated into New Turkish Lira at the actual rates applicable on the transaction date. Exchange gains and losses resulting from such translations are included in the statement of income. The Central Bank foreign exchange rates used by the Alarko Group in translating foreign exchange balances into New Turkish Lira as at the balance sheet dates are as follows:

	31 December 2005		31 December 2004	
	Purchasing	Selling	Purchasing	Selling
USD	1,3418	1,3483	1,3421	1,3486
EURO	1,5875	1,5952	1,8268	1,8356
CHF	1,0188	1,0254	1,1806	1,1882
GBP	2,3121	2,3242	2,5765	2,5900
JPY	0,0114	0,0115	0,0129	0,0129
SEK	0,1678	0,1696	0,2018	0,2039
AUD	0,9823	0,9887	1,0384	1,0452

**(k) Impairment of Assets :**

In case where the book value of an asset exceeds its recoverable value, a provision for impairment loss is taken so as to bring the book value of the asset down to the level of its fair value and the amount of the provision is recorded in the income statement as an expense.

On the other hand, the recoverable value of cash generating assets is deemed to be the higher of net selling price and the value in use. The value in use of those assets represents the net present value of net cash inflows to be acquired through continuous usage and sales of the assets, discounted at a reasonable discount rate.

**(l) Investment Properties :**

Investment properties are recognized in the financial statements after the accumulated depreciation and value decrease are deducted from the adjusted acquisition cost.

The expertise values taken as the basis for the fair value of investment properties are compared with the adjusted acquisition costs and in the event that the expertise value is lower than the adjusted acquisition cost, provision is made as per the conditions stated in the section on impairment. Such impairment is determined and applied separately for each investment property.

Depreciation is calculated as per the economical lives of investment properties by straight-line method on pro rata basis. The depreciation rates determined and applied as per the economical lives of the investment properties are as follows:

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Buildings	5%
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**(m) Construction Contracts :**

The construction contracts related to the deferred construction works undertaken as contractor are accounted by the percentage of completion method. The contract income and expenses are recognized as income and expense items in the event that a reliable assumption is made for the value of returns on the construction contract. The comparison of the total contract expenses incurred at the end of the related accounting period with respect to the total forecast contract costs represents the percentage of completion. This rate is utilized in the recognition of contract income for the current period in the financial statements.

If a reliable forecast cannot be made on the outcome of the construction contracts, the total contract costs undertaken for the period are recognized in the financial statements, whereas in regard to the construction proceeds, only the portion corresponding to the recoverable volume of the undertaken contract costs are recognized.

If the total contract costs are likely to exceed the total contract proceeds, the expected loss is recognized as expense in the financial statements.

**(n) Borrowing Costs:**

Borrowing costs are recognized as expense. Borrowing costs related to the qualifying assets are included directly in the cost of the related qualifying asset. Upon completion of the necessary operations to make the qualifying asset ready for use or sale, the capitalization of the borrowing costs is discontinued. The net balance of TRY 904.979 remaining after the deduction of foreign exchange differences from the interest expenses directly related to the investments in progress is included in the cost of the related asset.

**(o) Deferred Taxes :**

Deferred taxes are calculated on the temporary differences that arise between the deductible tax base and the book values of assets and liabilities, by using the liability method. The primary temporary differences arise from the income and expense items that are reported in different periods with respect to the Communiqué Nr. XI/25 and the tax legislation. While deferred tax liabilities are calculated for all taxable temporary differences, deferred tax assets consisting of deductible temporary differences are calculated with the assumption that the Alarko Group will have taxable income during the future periods.

An enterprise should offset current tax assets and current tax liabilities if the enterprise has a legally enforceable right to set off the recognized amounts, provided that the tax assets and tax liabilities are subject to the tax legislation of the same jurisdiction.

**(p) Income Taxes :****2005**

Corporate earnings are subject to corporation tax at a rate of 30%. In case investment allowance is deducted in the calculation of taxable income, same as with other profits exempted from corporation tax, no withholding calculation is required in cases where such earnings are not distributed. However in case the investment allowance used is based on the supplementary articles 1 and 6 of the Income Tax Law (ITL) which have been annulled by Law nr 4842, income tax withholding, whether distributed or not, is calculated at a rate of 19,8% according to the Provisional Article 61 of ITL. Whether exempted or not, dividends paid in cash to real persons with full liability and real persons and entities with limited liability (non-residents) are subject to income tax withholding at a rate of 10%. However, income tax withholding is not applicable to the dividends arising from 1998 and prior years' profits and from the exempt profits relating to the years 1999, 2000, 2001 and 2002 as well as income and profits corresponding to the above mentioned investment allowance taxed at the rate of 19,8%. Addition of current year and prior year profits (retained earnings) to share capital has not been regarded as distribution of profits and therefore no withholding tax is applicable to these earnings. On the other hand, no withholding tax is applicable to entities with full liability in profit distributions. Further, provisional corporation tax is paid at a rate of 30% on the profits declared for interim periods to be deducted from the corporation tax.

With respect to the article 298 (bis) of the Tax Law amended by Law 5024, the inflation adjustment application which started in 2004 has ended as the increase in the wholesale price indices for the last 36 months and the last 12 months ended March 2005 are below 100% and 10%, respectively. As the criteria of 100% and 10% has not been realized simultaneously in the June, September and December 2005 accounting periods, inflation accounting application has not been started. For that reason no inflation adjustment is made in relation to 2005.

## **2004**

Corporate earnings are subject to corporation tax at a rate of 33%. In case investment allowance is deducted in the calculation of taxable income, same as with other profits exempted from corporation tax, no withholding calculation is required in cases where such earnings are not distributed. However in case the investment allowance used is based on the supplementary articles 1 and 6 of the Income Tax Law (ITL) which have been annulled by Law nr 4842, income tax withholding, whether distributed or not, is calculated at a rate of 19,8% according to the Provisional Article 61 of ITL and no separate calculation will be made for funds levy. Whether exempted or not, dividends paid in cash to real persons with full liability and real persons and entities with limited liability (non-residents) are subject to income tax withholding at a rate of 10%. However, income tax withholding is not applicable to the dividends arising from 1998 and prior years' profits and from the exempt profits relating to the years 1999, 2000, 2001 and 2002 as well as income and profits corresponding to the above mentioned investment allowance taxed at the rate of 19,8%.

Addition of current year and prior year profits (retained earnings) to share capital has not been regarded as distribution of profits and therefore no withholding tax is applicable to these earnings. On the other hand, no withholding tax is applicable to entities with full liability in profit distributions.

Further, provisional corporation tax is paid at a rate of 33% on the profits declared for interim periods to be deducted from the corporation tax.

Starting from 2005, corporation tax and provisional corporation tax rate will be 30%.

40% of the investment expenditures of companies related to tangible assets realized subsequent to 24 April 2003 are exempt from corporation tax through benefiting from investment allowance, except for certain cases. The exempt amounts are not subject to withholding. In the event that the corporate income is not sufficient, the investment allowance right is deferred to future years. In order to benefit from investment allowance, "Investment Allowance Document" is not required.

With respect to the article 298 (bis) of the Tax Law amended by Law 5024, the financial statements of tax payers that keep their accounting records on balance sheet basis are subject to inflation adjustment under the conditions that the increase in TEFE (wholesale price indices) exceeds 100% for the last three years and 10% for the current year. As the second criterion of 10% has not been realized in the first provisional tax period of 2004, no inflation adjustment is made for the first three months. However, inflation adjustment is made in the second provisional tax period of 2004 as the second criterion is realized and the same application is carried on at the year end with the succeeding provisional tax periods. As per the Turkish tax system, financial losses can be offset against the financial profits (tax base) within the following five years, however they cannot be offset against the prior year profits. As of 31 December 2005 and 2004, income tax provisions have been made in accordance with the prevailing tax legislation.

### **(r) Provision for Termination Indemnity :**

Under Turkish Labour Law, the Company is required to pay termination indemnities to each employee who completes one year of service and whose employment is terminated without due cause, is called up for military service, leaves within one year after marriage (women only), and to those employees who retire or die. The amount payable consists of one month's salary for each year of service. This entitlement is limited to TRY 1.727,15 for each year of service as of 31 December 2005 [31 December 2004 - TRY 1.574,74].

The Company has determined the termination indemnity liability stated in the accompanying financial statements as per the recognition and valuation principles stated in "Employee Benefits" section 29 of the Communiqué Nr. XI/25. As the characteristics of the termination indemnity liabilities are similar to the "Post Employment Benefit Plans" stated in this section, these liabilities are calculated and stated in the financial statements on the basis of below mentioned "Proposed Unit Loan Method" and other various assumptions.

- The dates that the employees will gain their pension rights are determined with respect to the prevailing social security laws with consideration to their past employment durations.
- In calculating the current value of future liabilities that may arise due to the retirement or contract termination of an employee, the lower of the current salaries and wages or the value of the termination indemnity upper limit determined by the Labour Law for 31 December 2005 and 2004 to remain constant for restatement purposes is taken, and later on, this value is reduced by the actual discount rate of 5,45% calculated upon the assumption that the expected annual inflation rate will be 10% and the expected discount rate will be 16% which represents the proposed average interest rate per annum of the government bonds, in order to determine the current net value of the termination indemnity liability at the balance sheet date.

### **(s) Revenues and Expenses :**

The accrual basis of accounting is applied for the recognition of revenues and expenses. The accrual concept requires that revenue, income and profits should be matched with costs, expenses and losses belonging to the same period.

### **(t) Earnings / (Loss) per Share :**

Earnings/(loss) per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

**(u) Accounting Estimates :**

During the preparation of financial statements in accordance with the Communiqué Nr. XI/25, the Management is required to disclose the balance sheet value of the assets and liabilities stated in the financial statements as of the balance sheet date and explanations regarding off balance sheet liabilities, and to provide assumptions that might affect the totals of income and expense realized during the period. However, actual results may vary from these results.

**(v) Subsequent Events:**

If the Company receives information after the balance sheet date about conditions that existed at the balance sheet date, it updates the financial statements that relate to those conditions, in the light of the new information. If non-adjusting events after the balance sheet date are material, the Company discloses them during the related period.

**(y) Conditional Assets and Liabilities:**

Assets and liabilities that originate from past incidents and whose presence is not fully under the company management control as it can only be confirmed through the realization of one or more indefinite incidents to take place in the future are not included in the financial statements and are deemed as conditional liabilities and assets.

**(z) Segment Reporting :**

The activities of Alarko Group are classified under seven sectors, namely, holding, tourism, industry and commerce, energy, contracting, land development and fishery products[\*].

[\*]Fishery products group is included in the consolidation as per the equity method.

**4. Liquid Assets**

Liquid assets consist of the following (TRY) :

	<b>31 December 2005</b>	<b>31 December 2004</b>
Cash	186.301	173.365
Banks	184.053.959	231.400.739
TRY demand deposit	722.461	2.795.750
Foreign currency demand deposit	2.613.003	9.153.896
TRY time deposit	23.783.183	11.657.495
Foreign currency time deposit	155.788.841	207.243.627
Blocked time deposit accounts	1.146.471	549.971
Cheques Received	1.397.335	572.748
Other Liquid Assets	44.325	37.923
	<b><u>185.681.920</u></b>	<b><u>232.184.775</u></b>

**5. Marketable Securities**

Marketable securities consist of the following (TRY) :

	<b>31 December 2005</b>	<b>31 December 2004</b>
Financial Assets Held for Trading		
- Investment Funds	107.489.796	74.735.267
Financial Assets to be Retained Until Maturity		
- Public Sector Notes and Bonds	10.645.230	7.081.422
	<b><u>118.135.026</u></b>	<b><u>81.816.689</u></b>

The interest rates of financial assets to be retained until maturity vary between 2,13 %- 4,25 %.

**6. Financial Liabilities**

Financial liabilities consist of the following (TRY) :

	<b>31 December 2005</b>	<b>31 December 2004</b>
Short Term Bank Loans	57.047.592	29.122.502
Principal and Interest Payments of Long Term Loans	6.279.311	6.090.769
Long Term Bank Loans	23.915.212	21.065.648
Short Term Other Financial Liabilities	524.473	85.836
Long Term Other Financial Liabilities	642.605	772.523
	<b><u>88.409.193</u></b>	<b><u>57.137.278</u></b>



The maturities of short and long term loans vary between 12.01.2006 and 14.12.2012.

## 7. Trade Receivables and Payables

Short term trade receivables consist of the following (TRY) :

	31 December 2005	31 December 2004
Customers	106.789.306	45.276.727
Due from related parties	23.376.539	25.456.453
Rediscount on due from related parties (-)	(18.508)	(10.342)
Notes receivable	29.886.093	22.394.961
Rediscount on receivables (-)		
Notes receivable	(416.373)	(279.138)
Post dated cheques	(349.833)	(409.157)
Customers	(317.855)	(57.816)
Deposits and guarantees given	35.831.173	25.555.249
Other short term receivables	1.547.152	3.954.821
Doubtful trade receivables	2.252.412	2.152.053
Provision for doubtful trade receivables(-)	(2.252.412)	(2.152.053)
	<b><u>196.327.694</u></b>	<b><u>121.881.758</u></b>

Long term trade receivables consist of the following (TRY) :

	31 December 2005	31 December 2004
Customers	16.952	9.160
Notes receivable	192.664	539
Rediscount on receivables (-)		
Notes receivable	(33.725)	(113)
Customers	(1.340)	-
Deposits and guarantees given	559.963	574.963
	<b><u>734.514</u></b>	<b><u>584.549</u></b>

Trade payables consist of the following (TRY) :

	31 December 2005	31 December 2004
Suppliers	84.909.866	71.887.193
Notes payable	-	2.386.280
Due to related parties	3.509.886	343.240
Rediscount on payables(-)		
Suppliers	(800.472)	(68)
Notes payable	-	(17.320)
Deposits and guarantees received	15.390.005	8.507.968
Other trade payables	26.759.057	788.644
	<b><u>129.768.342</u></b>	<b><u>83.895.937</u></b>

## 8. Financial Lease Assets and Liabilities

Liabilities arising from short and long term financial lease transactions consist of the following (TRY):

	31 December 2005	31 December 2004
Total financial lease liabilities	1.237.935	-
Interest payable(-)	(175.644)	-
	<b><u>1.062.291</u></b>	<b>-</b>
Financial lease liabilities with maturities extending to 1 year	475.657	-
Financial lease liabilities with maturities exceeding 1 year	586.634	-
	<b><u>1.062.291</u></b>	<b>-</b>

## 9. Due From and To Related Parties and Transactions

Balances due from related parties consist of the following (TRY):

	31 December 2005	31 December 2004
E.M.I.T. S.p.A.	75.317	-
Max Streicher GmbH Co	2.796.872	-
Obrascon Huarte Lain SA-Günsayıl-Alsim A.Ş.	-	1.264.834
OHL-Alsim Alarko GYO Ortak Girişim Projesi	234.767	185.916
	<b><u>3.106.956</u></b>	<b><u>1.450.750</u></b>

Balances due to related parties consist of the following (TRY):

	31 December 2005	31 December 2004
Günsayıl - Alsim A.Ş.	-	879.947
Hautstadt & Timmermann	-	46.068
Alsim Alarko San. Tes. ve Tic. A.Ş.-TCDD Projesi	-	274.582
Dividends payable to shareholders	5.814	6.588
Obrascon Huarte Lain SA-Günsayıl-Alsim A.Ş.	172.271	-
	<b>178.085</b>	<b>1.207.185</b>

Sales to related parties consist of the following (TRY):

	31 December 2005	
Anmak Holding A.Ş.	23.006	
Alsim A.Ş.-Wacon Hillwater Terrasan	9.648	
Saret Sanayi Taah. ve Tic. A.Ş.	247	
Sansal İnşaat Tesisat San. ve Tic. A.Ş.	360	
Al-Riva Proje Ar. Değ. Konut İnş. Tic. A.Ş.	4.841	
Al-Riva Arazi Değ. Konut İnş. ve Tic. A.Ş.	2.732	
Al-Riva Ar. Değ. Kon. İnş. Tur. Tes. Golf A.Ş.	7.843	
Tüm Tesisat ve İnşaat A.Ş.	1.692	
Alfarm Alarko Leröy Su Ürünleri San. ve Tic. A.Ş.	64.373	
Alsim A.Ş.-Akfen A.Ş. Çarşamba Havaalanı	2.430	
<b>Total</b>	<b>117.172</b>	

Purchases from related parties consist of the following (TRY):

	31 December 2005	
Alfarm Alarko Leröy Su Ürün. San. ve Tic. A.Ş.	3.979	
<b>Total</b>	<b>3.979</b>	

## 10. Other Receivables and Liabilities

Short term other receivables consist of the following (TRY):

	31 December 2005	31 December 2004
Other miscellaneous receivables	822.135	348.235
Due from personnel	5.244	1.917
Other doubtful receivables	6.099	6.099
Provision for other doubtful receivables (-)	(6.099)	(6.099)
	<b>827.379</b>	<b>350.152</b>

Long term other receivables consist of the following (TRY):

	31 December 2005	31 December 2004
Other receivables	-	2.230
	<b>-</b>	<b>2.230</b>

Short term other liabilities consist of the following (TRY):

	31 December 2005	31 December 2004
Due to personnel	17.424	5.906
Other miscellaneous liabilities	262.750	103.162
Premium accrual related to Hedge contract	7.011.809	-
Expense accruals	430.570	776.257
Income related to future months	701.137	720.659
Taxes, duties, and other withholdings payable	4.246.963	4.243.729
Social security premiums payable	1.246.548	1.053.693
Other Special Consumption Tax	226.249	128.503
VAT calculated	383.646	6.136
Other VAT	807.941	722.655
	<b>15.335.037</b>	<b>7.760.700</b>

Long term other liabilities consist of the following (TRY):

	31 December 2005	31 December 2004
Income related to future years	32.353	44.246
	<u>32.353</u>	<u>44.246</u>

#### 11. Biological Assets

None (2004 : None).

#### 12. Inventories

Inventories consist of the following (TRY):

	31 December 2005	31 December 2004
Raw materials and supplies	41.060.200	47.812.842
Semi finished products	1.480.660	1.088.125
Finished products	2.888.956	2.343.023
Merchandise (*)	33.102.161	32.803.894
Inventory provision (-)	(844.686)	(286.475)
Order advances given	11.496.521	15.851.714
	<u>89.183.812</u>	<u>99.613.123</u>

(\*) As of 31 December 2005, a portion of the merchandise inventory corresponding to a net amount of TRY 27.811.187 consists of real estates held for trading. As of 31 December 2004, a portion of the merchandise inventory corresponding to a net amount of TRY 28.791.310 consists of real estates held for trading. Details as of 31 December 2005 and 2004 are presented below.

As of 31 December 2005 and 2004, details of real estates held for trading consist of the following (TRY):

Real Estate Project	31 December 2005			31 December 2004		
	Adjusted Book Value	Expertise Value	Expertise Date	Adjusted Book Value	Expertise Value	Expertise Date
Land share (1 Parcel)	1.167.215	6.024.000	19.10.2005	1.263.167	5.508.000	11.01.2005
Project cost	6.226.525	53.245.000	19.10.2005	4.355.361	27.712.000	11.01.2005
<b>Total</b>	<b>7.393.740</b>	<b>59.269.000</b>		<b>5.618.528</b>	<b>33.220.000</b>	
Land in Büyükçekmece						
Cost of land (5 Parcels)	4.321.594	6.646.500	15.12.2005	4.321.594	5.802.505	11.01.2005
Land in İzmir Güzelbahçe						
Cost of land	-	-	-	3.040.856	4.220.000	11.01.2005
Alkent İstanbul 2000 - 1 Villa						
Cost	1.342.861	990.000	15.12.2005	1.339.861	840.000	11.01.2005
Impairment loss (-)	(352.861)	-	-	(499.861)	-	-
	990.000	990.000		840.000	840.000	
Land in Maslak						
Cost of land	15.105.853	23.700.000	15.12.2005	14.970.332	23.040.000	11.01.2005
<b>Total</b>	<b><u>27.811.187</u></b>	<b><u>90.605.500</u></b>		<b><u>28.791.310</u></b>	<b><u>67.122.505</u></b>	

**Real Estate Project:** The construction license of 63 villas and 1 social facility constructed on an area of 239.466 m<sup>2</sup> on section 106, parcel 18 in Büyükçekmece Eskice District included in the investment properties portfolio is received on 21 October 2005 and the sales transactions have started. As of 31 December 2005, sales contracts are made for 7 villas.

**Land in Büyükçekmece:** There are 5 parcels of land with a total area of 819.272 m<sup>2</sup>.

**Land in Maslak:** It is planned to construct a mall on an area of 18.962 m<sup>2</sup> in Maslak, İstanbul.

Land in Güzelbahçe, İzmir is sold on 22 December 2005 at a price of TRY 5.205.972 without VAT.

As of 31 December 2005 and 2004, insurance totals on investment properties held for trading amount to TRY 769.318 and TRY 671.050, respectively.

### 13. Balances Due From Ongoing Construction Contract and Contract Income

Costs and forecast earnings related to the ongoing construction contracts are as follows (TRY):

	31 December 2005	31 December 2004
Costs related to the ongoing construction contracts	1.225.424.913	773.820.329
Forecast earnings	205.778.405	173.621.223
Less: Total contract income billed as of the period end	(1.388.050.842)	(927.229.655)
	<u>43.152.476</u>	<u>20.211.897</u>

The net balance stated above is classified in the accompanying consolidated balance sheets as follows (TRY):

	31 December 2005	31 December 2004
Due from Ongoing Construction Contracts (net)	155.852.673	111.509.505
Ongoing Construction Contract Income	(112.700.197)	(91.297.608)
	<u>43.152.476</u>	<u>20.211.897</u>

### 14. Deferred Tax Assets and Liabilities

Temporary differences creating a basis for deferred tax calculations and deferred tax assets/liabilities and deferred tax income/expenses are as follows (TRY):

Temporary Income / (Expense) Differences

	31 December 2005	31 December 2004
Difference between the book value of inventories and their tax bases, net	(157.864)	(21.874)
Prior year losses	147.969	4.863.209
Valuation difference in deferred construction costs	112.083.198	64.378.815
Valuation difference in deferred construction contract income	(114.722.567)	(66.804.246)
Financial expense not subject to depreciation	84.479	112.639
Inventory provision	491.825	286.475
Provision for other doubtful receivables	198.666	306.580
Royalty provision	65.367	203.204
Adjustment of rediscount on customers and notes receivable	(494.864)	(654.998)
Adjustment related to rediscount on suppliers and notes payable	(60.574)	66
Valuation difference in financial instruments	487.201	221.491
Termination indemnity	4.769.825	3.362.275
Valuation difference related to non-monetary accounts	(3.845.680)	(2.099.881)
Net difference between the book values of tangible and intangible assets and their tax bases	(11.202.626)	(7.310.884)
Investment allowance	<u>31.254.331</u>	<u>26.832.652</u>
Total Temporary Income/(Expense) Differences	19.098.686	23.675.523
Deferred Tax Assets	5.314.546	5.411.381

The tax rate for companies using investment allowance is taken as 19,8% and that for the other companies as 30%. Additionally, deferred tax is calculated at a rate of 10,2% over the investment allowance with incentive and 30% over the investment allowance without incentive.

Current period deferred tax assets / (liabilities)	5.314.546
Reversal of prior period deferred tax liabilities/assets	(5.411.381)
<b>Deferred tax income /(expense) (Note 42 )</b>	<u><b>(96.835)</b></u>

## 15. Other Current/Non-current Assets and Short/Long Term Liabilities

Other current/short term assets consist of the following (TRY):

	31 December 2005	31 December 2004
Expenses related to future months	2.731.733	3.964.007
Accrual of Hedge contract	3.363.842	-
Income accruals	2.950.479	2.725.328
Deferred VAT	5.293.753	8.362.197
Other VAT	807.729	722.654
Job advances	13.764	7.121
Personnel advances	217	4.071
VAT deductible	576	64.431
Prepaid taxes and funds	4.471.936	3.317.363
Special consumption tax	226.249	128.503
Other miscellaneous current assets	174.905	68.028
	<b>20.035.183</b>	<b>19.363.703</b>

Other non-current/long term assets consist of the following (TRY):

	31 December 2005	31 December 2004
Other miscellaneous long term assets	180	14.132
Expenses related to future years	349.122	1.580.571
Accrual of Hedge contract	1.681.921	-
Prepaid taxes and funds	12.879.516	7.605.957
	<b>14.910.739</b>	<b>9.200.660</b>

## 16. Financial Assets

### Affiliates ;

	31 December 2005		31 December 2004	
	Participation Rate %	Amount	Participation Rate %	Amount
Al-Riva Proje Ar. Değ.Konut İnş. ve Tic. A.Ş.	12,12	4.965.252	12,15	4.943.316
Al-Riva Arazi Değ. Konut İnş. ve Tic. A.Ş.	2,62	436.964	2,63	440.229
Al-Riva Arazi Değ. Konut İnş. Turistik Tes.Golf İsl. ve Tic. A.Ş.	2,28	1.256.956	2,28	1.266.630
Nevsky Investment Ltd. *	29,60	1.034.870	29,60	1.034.870
İzocam Ticaret ve Sanayi A.Ş. ***	-	-	-	-
Tek-İz Teknik İzolasyon ve Yapı Elemanları San. A.Ş. ***	-	-	8,33	400.344
Isı Sanayi Araştırma ve Geliştirme A.Ş.	2,65	7.348	2,65	7.348
San-Bir San. Hiz. İsl. ve Tic. A.Ş.	1,18	2.643	1,18	2.643
Alfarm Alarko Leröy Su Ürün. San. ve Tic. A.Ş.	40,96	2.011.645	40,96	1.550.913
Other **	-	306.281	-	207.380
		<b>10.021.959</b>		<b>9.853.673</b>
Subsidiaries ;				
Tüm Tesisat ve İnşaat A.Ş.*	1,38	12.565	1,38	12.565
Temzet Elektrik Üretim İletim A.Ş. *	50,00	5.561.576	50,00	5.561.576
Ado İnşaat ve Taah. ve Tic. A.Ş. ****	-	-	50,00	2.632
Alarko SA *	41,25	48.852	41,25	48.852
		<b>5.622.993</b>		<b>5.625.625</b>
<b>Total</b>		<b>15.644.952</b>		<b>15.479.298</b>

(\*) The related companies are not included in the consolidation as the volume of their activities is low and they do not have a significant effect on the consolidated financial statements.

(\*\*) Less than 1%.

(\*\*\*) As of 31 December 2004, the assets and liabilities of the affiliate Tek-İz İzolasyon ve Yapı Elemanları Sanayi A.Ş. have been transferred as a whole to İzocam Ticaret ve Sanayi A.Ş. The case related to the transfer operation is issued in the Trade Registry Gazette dated 4 July 2005 nr. 6338. Alarko Group has sold the İzocam Ticaret ve Sanayi A.Ş. shares acquired through this transfer operation on 2 December 2005 at the Istanbul Stock Exchange and the profit made thereon amounts to TRY 1.757.690.

(\*\*\*\*) As determined by the board resolution dated 16 September 2005, the liquidation operations of Ado İnşaat ve Taahhüt Ticaret A.Ş. have been completed and the said resolution is issued in the Trade Registry Gazette dated 4 October 2005 nr. 6403.

## 17. Goodwill

As of 31 December 2005, the negative goodwill amounting to TRY 881.339 as stated in the consolidated financial statements (31 December 2004 - TRY 941.365) originates from the acquisition of the Aldem Alarko Konut İnşaat ve Tic. A.Ş. shares by Alsim Alarko San. Tes. ve Tic. A.Ş., and the goodwill calculated as of the transaction date and the accumulated amortisation as of the balance sheet date are as follows (TRY):

### As of 31 December 2005;

Date of transaction	Goodwill (Gross)	Accumulated Amortization	Negative Goodwill, net
31 January 2002	855.251	(252.965)	602.286
11 March 2002	345.277	(66.224)	279.053
	<b><u>1.200.528</u></b>	<b><u>(319.189)</u></b>	<b><u>881.339</u></b>

### As of 31 December 2004;

Date of transaction	Goodwill (Gross)	Accumulated Amortization	Negative Goodwill, net
31 January 2002	855.251	(210.202)	645.049
11 March 2002	345.277	(48.961)	296.316
	<b><u>1.200.528</u></b>	<b><u>(259.163)</u></b>	<b><u>941.365</u></b>

## 18. Investment Property

	31 December 2005	31 December 2004
1 January 2005	2.681.000	2.625.842
Acquisitions	36.600	40.422
Accumulated depreciation	(670.644)	(571.600)
Before value increase, net	2.046.956	2.094.664
Value increase	107.393	14.736
<b>After value increase, net</b>	<b><u>2.154.349</u></b>	<b><u>2.109.400</u></b>

As of 31 December 2005 and 2004, the insurance totals on investment properties are TRY 36.353.345 and TRY 33.308.870, respectively.

As of 31 December 2005, comparison between the restated cost values of investment properties and their market values is as follows (TRY):

31 December 2005			
Name of Property	Expertise Report Date	Market Value	Cost Value, Net
İstanbul Şişhane İş Merkezi	15.12.2005	1.065.000	1.341
İstanbul Karaköy İş Merkezi	15.12.2005	860.000	860.000
Ankara Çankaya İş Merkezi	15.12.2005	2.015.000	1.293.008
		<b><u>3.940.000</u></b>	<b><u>2.154.349</u></b>

As of 31 December 2004, the comparison of restated cost values of investment properties with their market values is as follows (TRY):

31 December 2004			
Name of Property	Expertise Report Date	Market Value	Cost Value, Net
İstanbul Şişhane İş Merkezi	11.01.2005	850.000	1.381
İstanbul Karaköy İş Merkezi	11.01.2005	785.000	785.000
Ankara Çankaya İş Merkezi	11.01.2005	1.800.000	1.323.019
		<b><u>3.435.000</u></b>	<b><u>2.109.400</u></b>

As of 31 December 2005, provision that should be made for impairment of Istanbul Karaköy İş Merkezi amounts to TRY 73.418. As of 31 December 2004, provision is made for an amount of TRY 180.811 through deduction from cost value as stated in the accompanying financial statements, and for that reason, as of 31 December 2005, the impairment is reversed through deduction of TRY 107.393 from the general administration expenses for Istanbul Karaköy İş Merkezi.

## 19. Tangible Assets

Tangible assets consist of the following (TRY):

	Opening 1 January 2005	Effect of Rate Change	Additions	Capitalized Borrowing Costs and Foreing Exchange Difference	Transfers and Disposals	Elimination Entries	After Elimination Entries 31 December 2005
Land	7.004.211	-	12.005	-	-	(11)	7.016.205
Land improvements	28.452.728	-	4.299	-	222.431	-	28.679.458
Buildings	145.994.997	1.333.923	2.916.578	(95.115)	1.173.738	-	151.324.121
Plant, machinery, and equipment	117.722.239	1.041.461	19.775.118	(729.143)	44.435.917	(333.369)	181.912.223
Motor vehicles	6.556.286	2.169.693	5.993.812	(119.234)	(675.919)	(1.886)	13.922.752
Furniture and fixtures	46.842.626	2.341.769	6.819.824	(188.239)	(5.126.445)	(100.958)	50.588.577
Other tangible assets	6.019.796	87.558	127.059	(2.040)	1.166.487	-	7.398.860
Investments in progress	55.119.619	-	7.590.158	904.979	(53.370.326)	(2.170.024)	8.074.406
Order advances given	2.333.632	-	2.856.402	-	(2.881.733)	-	2.308.301
<b>Total</b>	<b><u>416.046.134</u></b>	<b><u>6.974.404</u></b>	<b><u>46.095.255</u></b>	<b><u>(228.792)</u></b>	<b><u>(15.055.850)</u></b>	<b><u>(2.606.248)</u></b>	<b><u>451.224.903</u></b>

	Opening 1 January 2005	Effect of Rate Change	Depreciation Expense for the Period	Foreign Exchange Difference	Sales Depreciation	31 December 2005	Elimination Entries	After Elimination Entries 31 December 2005
Accumulated depreciation								
Land improvements	27.592.467	-	108.700	-	-	27.701.167	-	27.701.167
Buildings	52.657.361	125.788	2.219.692	(22.105)	(352.555)	54.628.181	1.221.666	55.849.847
Plant, machinery and equipment	89.646.031	116.220	8.381.404	(86.785)	(3.527.763)	94.529.107	4.432	94.533.539
Motor vehicles	2.237.405	373.308	1.373.287	(20.835)	(229.206)	3.733.959	-	3.733.959
Furniture and fixtures	39.967.691	343.785	3.795.083	(33.841)	(3.437.092)	40.635.626	74.305	40.709.931
Other tangible assets	5.143.555	17.570	438.722	(409)	(8.666)	5.590.772	-	5.590.772
<b>Total Accumulated Depreciation</b>	<b><u>217.244.510</u></b>	<b><u>976.671</u></b>	<b><u>16.316.888</u></b>	<b><u>(163.975)</u></b>	<b><u>(7.555.282)</u></b>	<b><u>226.818.812</u></b>	<b><u>1.300.403</u></b>	<b><u>228.119.215</u></b>
<b>Tangible Assets, net</b>	<b><u>198.801.624</u></b>							<b><u>223.105.688</u></b>

Fixed assets acquired by financial leasing are included in the plant, machinery and equipment and consist of the following (TRY):

	31 December 2005	31 December 2004
Plant, machinery, and equipment	2.134.374	-
Accumulated depreciation (-)	(91.001)	-
	<b><u>2.043.373</u></b>	<b><u>-</u></b>

Tangible assets consist of the following (TRY) (continued):

	Opening 1 January 2004	Additions	Capitalized Borrowing Costs and Foreing Exchange Difference	Transfers and Disposals	31 December 2004	Elimination Entries	After Elimination Entries 31 December 2004
Land	7.001.085	3.206	-	-	7.004.291	(80)	7.004.211
Land improvements	28.452.009	719	-	-	28.452.728	-	28.452.728
Buildings	96.817.778	2.224.569	22.187	(6.595.005)	92.469.529	53.525.468	145.994.997
Plant, machinery and equipment	96.831.669	24.093.461	242.523	(3.191.882)	117.975.771	(253.532)	117.722.239
Motor vehicles	5.298.272	1.695.004	118.820	(555.810)	6.556.286	-	6.556.286
Furniture and fixtures	34.888.458	4.974.023	165.030	(1.043.705)	38.983.806	7.858.820	46.842.626
Other tangible assets	5.883.015	237.883	-	(101.086)	6.019.812	(16)	6.019.796
Investments in progress	49.684.180	3.516.470	573.659	(811.674)	52.962.635	2.156.984	55.119.619
Order advances given	2.386.604	135.182	-	(188.154)	2.333.632	-	2.333.632
<b>Total</b>	<b><u>327.243.070</u></b>	<b><u>36.880.517</u></b>	<b><u>1.122.219</u></b>	<b><u>(12.487.316)</u></b>	<b><u>352.758.490</u></b>	<b><u>63.287.644</u></b>	<b><u>416.046.134</u></b>

	Opening 1 January 2004	Depreciation Expense for the Period	Foreign Exchange Difference	Sales Depreciation	31 December 2004	Elimination Entries	After Elimination Entries 31 December 2004
Accumulated Depreciation							
Land improvements	27,485,318	107,149	-	-	27,592,467	-	27,592,467
Buildings	52,235,120	1,938,446	9,896	(1,694,861)	52,488,601	168,760	52,657,361
Plant, machinery and equipment	76,580,028	5,374,899	(22,607)	(789,434)	81,142,886	8,503,145	89,646,031
Motor vehicles	1,787,815	585,195	17,312	(152,917)	2,237,405	-	2,237,405
Furniture and fixtures	22,377,937	2,937,593	25,517	(336,046)	25,005,001	14,962,690	39,967,691
Other tangible assets	4,748,280	461,675	-	(66,400)	5,143,555	-	5,143,555
<b>Total accumulated depreciation</b>	<b>185,214,498</b>	<b>11,404,957</b>	<b>30,118</b>	<b>(3,039,658)</b>	<b>193,609,915</b>	<b>23,634,595</b>	<b>217,244,510</b>

#### Tangible Assets, Net

**198,801,624**

#### 20. Intangible Assets

Intangible assets consist of the following:

	Rights	Special Costs	Other Intangible Assets	Order Advances Given	Total
As of 1 January 2004	3,120,769	9,762,633	183	-	12,883,585
Additions	204,332	976,860	141	-	1,181,333
Transfers	1,218	-	-	-	1,218
Disposals	(10,801)	(534,986)	-	-	(545,787)
Exchange rate differences	506	-	-	-	506
As of 31 December 2004	<u>3,316,024</u>	<u>10,204,507</u>	<u>324</u>	<u>-</u>	<u>13,520,855</u>
Elimination	-	955,376	-	-	955,376

#### Total after Elimination 31 December 2004

**3,316,024**    **11,159,883**    **324**    **-**    **14,476,231**

Effect of rate change	61,135	-	-	-	61,135
Additions	75,188	929,884	-	6,547	1,011,619
Transfers	25,161	-	-	7,926	33,087
Disposals	(5,390)	(16,354)	(23)	(12,158)	(33,925)
Exchange rate differences	(3,193)	-	-	-	(3,193)

As of 31 December 2005    3,468,925    12,073,413    301    2,315    15,544,954

Elimination    -    -    -    -    -

#### Total after Elimination 31 December 2005

**3,468,925**    **12,073,413**    **301**    **2,315**    **15,544,954**

#### Accumulated Amortization

Rights    Special  
Costs    Other  
Intangible  
Assets    Total

As of 1 January 2004    1,917,932    4,340,255    74    6,258,261

Charged for current year    407,718    1,227,941    14    1,635,673

Disposal    (2,895)    (334,312)    -    (337,207)

Exchange rate differences    46    -    -    46

Elimination    -    563,401    -    563,401

#### Total after Elimination 31 December 2004

**2,322,801**    **5,797,285**    **88**    **8,120,174**

Effect of rate change    22,517    -    -    22,517

Charged for current year    350,837    1,333,626    76    1,684,539

Disposals    (1,944)    -    -    (1,944)

Exchange rate differences    (590)    -    -    (590)

Elimination    -    95,386    -    95,386

#### Total after Elimination 31 December 2004

**2,693,621**    **7,226,297**    **164**    **9,920,082**

#### Net Book Value

As of 31 December 2004    **6,356,057**

As of 31 December 2005    **5,624,872**



## 21. Advances Received

Advances received consist of the following (TRY):

	31 December 2005	31 December 2004
Short term order advances received	59.927.342	99.098.723
Long term order advances received	5.936.644	5.937.965
	<b><u>65.863.986</u></b>	<b><u>105.036.688</u></b>

## 22. Pension Plans

As of 31 December 2005 and 2004, there are no pension plans.

## 23. Provisions for Debts

Provisions for short term debts consist of the following (TRY):

	31 December 2005	31 December 2004
2004 tax provision	-	3.035.975
2005 current period tax provision (Note 42)	7.531.564	-
Prepaid taxes and funds	(2.183.717)	(1.383.372)
Provision for cost expenses (Note 32)	2.024.230	516.501
Other debt provisions (Note 32)	8.229.506	3.770.561
	<b><u>15.601.583</u></b>	<b><u>5.939.665</u></b>

Long term debt provisions consist of the following (TRY):

Provision for termination indemnity	7.797.553	6.118.144
Other debt provisions (Note 32)	4.264.655	1.706.241
	<b><u>12.062.208</u></b>	<b><u>7.824.385</u></b>
Provision for termination indemnity as of 31 December 2004	6.118.144	
Current period effect	1.679.409	
Provision for termination indemnity as of 31 December 2005	<b><u>7.797.553</u></b>	

## 24. Minority Interest

Minority interest consists of the following (TRY):

	31 December 2005	31 December 2004
Share capital	51.874.875	51.713.327
Share premium	545.569	545.569
Financial assets value increase fund	3.011.267	885.977
Legal reserves	2.099.929	2.093.558
Extraordinary reserves	41.219.009	41.250.987
Translation differences	1.443	(56.745)
Accumulated losses	(10.670.089)	(10.433.119)
Profit for the period	5.622.759	-
	<b><u>93.704.762</u></b>	<b><u>85.999.554</u></b>

## 25. Share Capital / Adjustment For Cross-Shareholding

The capital adjustment made in relation to the subsidiaries bearing interest in the Parent Company's share capital is as follows (TRY):

	31 December 2005	31 December 2004
Parent Company's share capital	16.080.000	16.080.000
Parent Company's nominal shares acquired by the Subsidiary (-)	(983.605)	(983.605)
<b>Total Share Capital</b>	<b><u>15.096.395</u></b>	<b><u>15.096.395</u></b>

## 26. Share Capital

As of 31 December 2005 and 2004, the Parent Company's share capital consists of the following (TRY):

As of 31 December 2005,

Name	Shareholding	Book Value	Capital Adjustment	Total Adjusted Capital
Anmak Holding A.Ş.	69,40%	11.160.295	111.127.605	122.287.900
Other *	30,60%	4.919.705	48.999.744	53.919.449
	<b><u>100,00%</u></b>	<b><u>16.080.000</u></b>	<b><u>160.127.349</u></b>	<b><u>176.207.349</u></b>

As of 31 December 2004,

Name	Shareholding	Book Value	Capital Adjustment	Total Adjusted Capital
Anmak Holding A.Ş.	73,88%	11.880.679	118.301.310	130.181.989
Other *	26,12%	4.199.321	41.826.039	46.025.360
	<b><u>100,00%</u></b>	<b><u>16.080.000</u></b>	<b><u>160.127.349</u></b>	<b><u>176.207.349</u></b>

\* Represents shareholdings of less than 10%. Parent Company shares of TRY 983.605 nominal value (Adjusted value as per the purchasing power of the Turkish Lira as at 31 December 2004- TRY 1.208.359) acquired in 2003 by Alarko Gayrimenkul Yatırım Ortaklığı A.Ş. are accounted by deduction from the share capital account in the consolidated balance sheets as of 31 December 2005 and 2004.

## 27. Capital Reserves

"Capital, Share Premium, Legal Reserves, Statutory Reserves, Special Reserves and Extraordinary Reserves" recognized among shareholders' equity items in the financial statements prepared subsequent to the first-time inflation adjustment are stated at their book values. The differences arising from the inflation adjustment of the related shareholders' equity items are stated in the "Differences Arising from Inflation Adjustment in Shareholders' Equity" account. The "Differences Arising from Inflation Adjustment in Shareholders' Equity" will only be used in offsetting bonus share increase or in offsetting losses.

The differences arising from inflation adjustment in shareholders' equity originating from restatement of share capital, legal and extraordinary reserves as of 31 December 2005 and 2004 are as follows (TRY):

	31 December 2005	31 December 2004
Inflation adjustment related to share capital*	159.902.595	159.902.595
Inflation adjustment related to reserves	130.620.259	131.038.239
<b>Differences arising from inflation adjustment in Shareholders' Equity</b>	<b><u>290.522.854</u></b>	<b><u>290.940.834</u></b>

\* Inflation adjustment related to the share capital is recognized after deduction of inflation adjustment related to the Subsidiary's share in the Parent Company amounting to TRY 224.754.

## 28. Foreign Currency Position

As of 31 December 2005, the assets and liabilities denominated in foreign currencies, which do not bear guaranteed rates of exchange, and, foreign currency amounts stated in the assets, are as follows:

	Foreign Currency	Currency Amount
Liquid Assets	USD	67.806.575
	Euro	40.555.766
	GBP	944.969
	JPY	761.148
	KZT	74.490.550
	DNR	4.968.447
	RBL	2.302.539
Marketable Securities	USD	3.082.486
	Euro	4.100.252
Short Term Trade Receivables	USD	58.118.642
	Euro	26.221.988
	GBP	162.828
	CHF	113.388
	KZT	576.035.116
	DNR	24.673.725
	RBL	1.637.526
Short Term Deposits and Guarantees Given	USD	12.762.249
	Euro	9.910.694
	KZT	246.299.806
Other Short Term Receivables	USD	379.637
	Euro	1.627.222
Advances Given to Sub-Contractors	USD	2.939.369
	Euro	5.625.187
	KZT	607.717.434
Contract Expenditures	Euro	1.358.929

## 28. Foreign Currency Position (continued)

31 December 2005

	Foreign Currency	Currency Amount
Short Term Order Advances Given	USD	2.925.535
	Euro	3.116.796
	KZT	30.997.663
	RBL	66.066
Other Current Assets	USD	2.753.866
	Euro	3.044.360
	KZT	249.841.808
	DNR	7.658.461
	RBL	382.874
Long Term Trade Receivables	USD	700
	Euro	5.935
Other Long Term Assets	USD	1.253.481
Long Term Deposits and Guarantees Given	USD	4.100
	Euro	594
Long Term Order Advances Given	USD	20.327
	Euro	7.279
Financial Debts	USD	(40.456.202)
	Euro	(3.966.302)
	JPY	(54.663.589)
Short Term Trade Payables	USD	(33.319.704)
	Euro	(14.409.520)
	GBP	(21.874)
	JPY	(6.842.091)
	CHF	(52.063)
	KZT	(1.932.539.770)
	DNR	(27.188.220)
	RBL	(473.988)
	SEK	(30.865)
Other Short Term Payables	USD	(5.289.092)
	Euro	(91.435)
Deposits and Guarantees Received	USD	(4.874.338)
	Euro	(3.097.867)
	KZT	(228.346.843)
	DNR	(6.014.321)
Short Term Order Advances Received	USD	(14.986.356)
	Euro	(13.806.402)
	GBP	(816)
	CHF	(275)
	KZT	(140.000.000)
	RBL	(14.549.127)
Deferred Construction and Maintenance Contract Income	USD	(16.679.313)
	KZT	(663.982.966)
	RBL	(823.940)
Provisions for Short Term Debts and Expenses	USD	(2.637.032)
	Euro	(1.694.818)
	KZT	(200.601.538)
	RBL	(287.985)
Short Term Other Liabilities	USD	(30.197)
	Euro	(75.548)
	KZT	(63.941.578)
	DNR	(15.282.068)
	RBL	(3.563.583)
Provisions for Long Term Debts and Expenses	USD	(3.162.987)
Long Term Financial Debts	USD	(17.674.042)
	JPY	(63.428.576)
Long Term Order Advances Received	USD	(4.403.059)

**28. Foreign Currency Position (continued)**
**31 December 2005**

	<b>Foreign Currency</b>	<b>Currency Amount</b>
Net Foreign Currency Position	USD	8,534,645
	Euro	58,433,110
	GBP	1,085,107
	JPY	(124,173,108)
	CHF	61,050
	KZT	(1,444,030,318)
	DNR	(11,183,976)
	RBL	(15,309,618)
	SEK	(30,865)

As of 31 December 2004, the assets and liabilities denominated in foreign currencies, which do not bear guaranteed rates of exchange, and, foreign currency amounts stated in the assets, are as follows:

**31 December 2004**

	<b>Foreign Currency</b>	<b>Currency Amount</b>
Liquid Assets	USD	102,823,726
	Euro	28,546,560
	GBP	485,340
	JPY	351,765,494
	CHF	391
	KZT	1,007,730,162
	DNR	24,249,115
	RBL	1,961,943
Marketable Securities	USD	4,967,500
Short Term Trade Receivables	USD	14,948,346
	Euro	12,626,928
	GBP	89,057
	JPY	1,580,926
	CHF	126,003
	KZT	2,027,880,752
	DNR	3,714,360
	RBL	235,044
Deposits and Guarantees Given	USD	3,068,748
	Euro	991,205
Other Receivables	USD	129,215
	Euro	596,424
Other Short Term Receivables	USD	140
	Euro	1,750
Advances Given to Sub-Contractors	USD	450,919
	Euro	732,443
Order Advances Given	USD	4,614,885
	Euro	44,789
	GBP	147
	KZT	159,735,652
	RBL	46,661
Long Term Deposits and Guarantees	USD	2,839
	Euro	594
Long Term Trade Receivables	USD	700
	Euro	4,500
Other Short Term Assets	USD	246,903
	Euro	4,972,948
	KZT	1,159,766,150
	DNR	33,358,406
	RBL	7,087,365
Financial Debts	USD	(24,663,368)
	JPY	(123,193,183)
	RBL	(1,842,935)

**28. Foreign Currency Position (continued)**
**31 December 2004**

	Foreign Currency	Currency Amount
Short Term Trade Payables	USD	(18.435.193)
	Euro	(9.647.992)
	GBP	(25.780)
	CHF	(9.548)
	KZT	(1.017.538.286)
	DNR	(78.844.059)
	RBL	(98.319)
	SEK	(28.453)
	AUD	(12.000)
Other Short Term Payables	USD	(728.484)
	Euro	(338.490)
	KZT	(176.121.188)
	DNR	(18.951.994)
	RBL	(9.321.385)
Deposits and Guarantees Received	USD	(1.384.313)
	Euro	(435.948)
Deferred Construction and Maintenance Contract Income	USD	(122.469.629)
	Euro	(9.912.052)
Provisions for Short Term Debts and Expenses	USD	(1.533.314)
Provisions for Long Term Debts and Expenses	USD	(1.265.195)
	Euro	(947.557)
Long Term Financial Debts	USD	(15.378.012)
	JPY	(84.571.432)
Order Advances Received	USD	(23.206.089)
	Euro	(25.125.051)
	GBP	(2.149)
	JPY	(1.443.760.164)
	RBL	(7.680.986)
Net Foreign Currency Position	USD	(77.809.676)
	Euro	2.111.051
	GBP	546.615
	JPY	(1.298.178.359)
	CHF	116.846
	KZT	3.161.453.242
	DNR	(36.474.172)
	RBL	(9.612.612)
	SEK	(28.453)
	AUD	(12.000)

**29. Profit Reserves**

Legal reserves, which are divided as First Legal Reserve and Second Legal Reserve as per the Turkish Commercial Code, are appropriated as below:

- (a) First Legal Reserve: Appropriated out of net profit at the rate of 5% until such reserve is equal to 20% of issued and fully paid capital.
- (b) Second Legal Reserve: Appropriated out of net profit at the rate of 10% of distributions after providing for First Legal Reserve and an amount equal to 5% of capital as dividends.

Legal reserves which do not exceed one half of share capital may only be used to absorb losses or for purposes of continuity of the business in times of business difficulties and to prevent unemployment or lessen its effects.

**30. Retained Earnings / (Accumulated Losses)**

Retained earnings / [accumulated losses] consist of the following (TRY):

	31 December 2005	31 December 2004
Retained earnings	140.301.320	140.301.320
Effect of consolidation by equity method	(535.411)	-
Value decrease in financial assets	(2.122.413)	-
Transfer to reserves	(5.725.851)	-
Effect of companies included in consolidation	214.650	-
Effect of rate change	(15.379.089)	-
<b>Retained Earnings</b>	<b><u>116.753.206</u></b>	<b><u>140.301.320</u></b>

### 31. Government Incentives and Aids

None (2004 : None).

### 32. Provisions, Conditional Assets and Liabilities

a) Mortgages on Assets As of 31 December 2005 and 2004, two parcels of the land in Eskice District in Büyükçekmece Village stated in the inventories and fixed assets accounts of the subsidiary Alarko Gayrimenkul Yatırım Ortaklığı A.Ş. regarded as Greenfield site is expropriated on behalf of İSKİ due to the reason that this piece of land is under unconditional preservation as per the provisions of the communiqué related to protection of land bearing tap water and drinking water resources against contamination; and there is a life annuity commentary in the name of Nelly Rose in relation to 1/2 a share of Karaköy İş Merkezi; there is a right of easement in relation to the stores in Etiler Alkent Sitesi in Beşiktaş District dated 14 October 1987 nr. 6430 to be utilized on behalf of the real estate of the Company on section 1411, parcel 1 and against that on section 1408, parcel 1 for benefiting from the central heating, and in some parts, there is a right of easement in relation to pass a canal of width of 1,5 meters to central heating for 49 years with TRY 7,72 of value. Furthermore, there is a personal right of easement for the owners of the property on section 1410, parcel 1 to benefit from the unused parking lot as stated in the project against the same parcel by voucher dated 26 February 1992 nr. 784.

b) The subsidiary Alarko Gayrimenkul Yatırım Ortaklığı A.Ş. has entered into two foreign currency forward contracts against foreign currency risk on 21 October 2005 amounting to USD 20.000.000 and USD 18.000.000 with maturity dates 30 March 2006 and 28 April 2006, respectively, under the conditions stated below. This contract includes the maturity date, spot exchange rate to be applied on the maturity date, the foreign currency subject to forward trading and its amount, and the TRY equivalent of the foreign currency amount at the same maturity date. As per the provisions of the contract, in the event that the transaction price of the USD at the stated dates is below the spot exchange rate to be applied on the maturity date, the Company is obliged to compensate the banks for the difference between the transaction price and the prevailing USD transaction rate. In the event that the transaction price of the USD is above the spot exchange rate to be applied on the maturity date, the banks are obliged to compensate the Company for the balance.

Bank	Contract Date	Foreign Currency	Currency Amount	Date	Exchange Rate Applied to Forward Transaction(USD/TRY)
Turkey İş Bankası	21.10.2005	USD	18.000.000	28.04.2006	1,4339
Turkey İş Bankası	21.10.2005	USD	20.000.000	30.03.2006	1,4250

As of 31 December 2005, a total of TRY 1.498.968 is written as expense in relation to the contracts during the year 2005.

As of 31 December 2005, the mortgages on assets amount to TRY 2.622.000 (31 December 2004 - TRY 2.969.990).

c) As of 31 December 2005, contingent liabilities amount to TRY 659.881.464 (31 December 2004 - TRY 776.541.626).

d) As of 31 December 2005, guarantee received for short term trade receivables amounts to TRY 44.127.101 (31 December 2004 - TRY 36.196.446).

e) As of 31 December 2005, the overdue receivables and the related provisions amount to TRY 2.258.511 (31 December 2004 - TRY 2.158.152).

f) As of 31 December 2005 and 2004, the debt provisions of the Company consist of the following (TRY):

Provisions for Short Term Liabilities;	31 December 2005	31 December 2004
Undocumented payables related to goods and services	5.979.998	3.751.047
Provision for interest	1.475.125	-
Provision for litigation	750.087	-
Rent expenses	466.328	435.716
Provision for contribution in central expenses	882	-
Communication expense payable	3.900	10.617
Electricity expense payable	22.888	28.703
Provision for maintenance and repair expenses	165	-
Provision for premiums	4.644	2.993
Contractual expenses	1.499.161	8.505
Water expense payable	18.629	4.224
Provision for tender expenses	3	-
Bonus expenses	7.042	25.283
Provisions for other expenses	24.884	19.974
<b>Total (Note 23)</b>	<b><u>10.253.736</u></b>	<b><u>4.287.062</u></b>

Provisions for Other Long Term Liabilities;		
Loss provisions (Note 23)	4.264.655	1.706.241

### 33. Segment Reporting

Segment reporting consists of the following (TRY):

31 December 2005

ASSETS	Holding	Tourism	Industry and Commerce	Energy	Contracting and Land Development	Elimination	Total
<b>Current / Short Term Assets</b>							
Liquid Assets	58.854.846	13.621.935	11.257.174	786.460	101.161.505	-	185.681.920
Marketable Securities (net)	36.358.856	22.976	2.693.840	3.545	79.055.809	-	118.135.026
Trade Receivables (net)	2.038.586	1.296.438	34.195.584	1.110.574	359.619.715	(201.933.203)	196.327.694
Leasing Receivables (net)	-	-	-	-	-	-	-
Due from Related Parties (net)	-	-	-	-	10.488.929	(7.381.973)	3.106.956
Other Receivables (net)	69.408	-	17.848	-	740.123	-	827.379
Biological Assets (net)	-	-	-	-	-	-	-
Inventories (net)	4.111	671.765	15.469.583	577.205	73.629.556	(1.168.408)	89.183.812
Receivables from Ongoing Construction Contracts (net)	-	-	-	-	39.390.173	116.462.500	155.852.673
Deferred Tax Assets	-	-	-	-	-	-	-
Other Current/Short Term Assets	712.644	674.064	1.302.011	534.138	16.812.326	-	20.035.183
<b>Non-current / Long Term Assets</b>							
Trade Receivables (net)	-	84.687	195.906	2.824	451.097	-	734.514
Leasing Receivables (net)	-	-	-	-	-	-	-
Due from Related Parties (net)	-	-	-	-	-	-	-
Other Receivables (net)	-	-	-	-	-	-	-
Financial Assets (net)	234.125.034	57.679	4.481.895	-	111.424.897	(334.444.553)	15.644.952
Goodwill (net)	-	-	-	-	-	(881.339)	(881.339)
Investment Properties (net)	-	-	-	-	40.344.378	(38.190.029)	2.154.349
Real Estate Held For Trading (net)	-	-	-	-	-	-	-
Tangible Assets (net)	1.447.445	13.943.908	27.565.798	59.123.140	85.278.997	35.746.400	223.105.688
Intangible Assets (net)	230.549	4.334.109	258.006	36.039	469.580	296.589	5.624.872
Deferred Tax Assets	124.766	1.056.364	1.271.529	3.178.871	33.571.192	(33.888.176)	5.314.546
Other Non-current / Long Term Assets	10	186	208	-	14.910.335	-	14.910.739
<b>Total Assets</b>	<b>333.966.255</b>	<b>35.764.111</b>	<b>98.709.382</b>	<b>65.352.796</b>	<b>967.348.612</b>	<b>(465.382.192)</b>	<b>1.035.758.964</b>
<b>LIABILITIES</b>							
<b>Short Term Liabilities</b>							
Financial Debts (net)	-	153.165	5.836.122	-	51.058.305	-	57.047.592
Short Term Portion of Long Term Financial Debts (net)	-	254.878	-	5.503.341	521.092	-	6.279.311
Leasing Payables (net)	-	-	-	-	475.657	-	475.657
Other Financial Liabilities (net)	-	-	-	524.473	-	-	524.473
Trade Payables (net)	13.094	8.129.231	6.772.431	1.477.846	198.846.442	(85.470.702)	129.768.342
Due to Related Parties (net)	5.203	-	472	-	7.554.382	(7.381.972)	178.085
Advances Received	-	3.913.038	3.619.040	-	53.457.129	(1.061.865)	59.927.342
Contract Income Related to Ongoing Construction Contracts (net)	-	-	-	-	112.700.197	-	112.700.197
Debt Provisions	1.183.850	57.030	825.594	882	13.534.227	-	15.601.583
Deferred Tax Liability	-	-	-	-	-	-	-
Other Liabilities (net)	305.129	653.169	2.261.961	78.593	12.036.185	-	15.335.037
<b>Long Term Liabilities</b>							
Financial Debts (net)	-	727.906	-	17.962.643	5.224.663	-	23.915.212
Leasing Payables (net)	-	-	-	-	586.634	-	586.634
Other Financial Liabilities (net)	-	-	-	642.605	-	-	642.605
Trade Payables (net)	-	-	-	-	-	-	-
Due to Related Parties (net)	-	-	-	-	-	-	-
Advances Received	-	-	-	-	5.936.644	-	5.936.644
Debt Provisions	415.632	676.852	3.356.102	149.503	7.464.119	-	12.062.208
Deferred Tax Liability	110.964	790.104	827.680	2.286.055	29.873.374	(33.888.177)	-
Other Liabilities (net)	-	32.353	-	-	-	-	32.353
<b>MINORITY INTEREST</b>	-	-	-	-	-	93.704.762	93.704.762
<b>SHAREHOLDERS' EQUITY</b>							
Share Capital	176.207.349	5.907.067	44.401.953	6.362.157	158.959.337	(375.757.863)	16.080.000
Adjustment for Cross Shareholding	-	-	-	-	-	(983.605)	(983.605)
Capital Reserves	86.430.158	-	302.724	-	69.175.576	134.507.146	290.415.604
Profit Reserves	61.005.390	1.724.226	42.304.517	17.486.215	91.232.644	(195.216.142)	18.536.850
Net Profit / (Loss) for the Period	10.035.529	705.247	7.761.749	(1.645.514)	55.945.551	(12.563.690)	60.238.872
Retained Earnings / (Accumulated Losses)	(1.746.043)	12.039.845	(19.560.963)	14.523.997	92.766.454	18.729.916	116.753.206
<b>Total Liabilities and Shareholders' Equity</b>	<b>333.966.255</b>	<b>35.764.111</b>	<b>98.709.382</b>	<b>65.352.796</b>	<b>967.348.612</b>	<b>(465.382.192)</b>	<b>1.035.758.964</b>

31 December 2004\*

ASSETS	Holding	Tourism	Industry and Commerce	Energy	Contracting and Land Development	Elimination	Total
Current / Short Term Assets							
Liquid Assets	59.065.987	10.582.766	14.382.782	25.015	148.105.747	22.478	232.184.775
Marketable Securities (net)	28.490.965	-	197.219	3.013	53.125.492	-	81.816.689
Trade Receivables (net)	409.380	1.150.007	27.116.285	291.652	255.762.014	(162.847.580)	121.881.758
Leasing Receivables (net)	-	-	-	-	-	-	-
Due from Related Parties (net)	-	-	-	-	1.594.180	(143.430)	1.450.750
Other Receivables (net)	30.182	-	23.470	-	296.500	-	350.152
Biological Assets (net)	-	-	-	-	-	-	-
Inventories (net)	3.932	523.084	12.636.029	7.138	86.436.804	6.136	99.613.123
Receivables from Ongoing Construction Contracts (net)	-	-	-	-	31.038.380	80.471.125	111.509.505
Deferred Tax Assets	-	-	-	-	-	-	-
Other Current/Short Term Assets	588.572	730.466	940.370	73.266	16.859.636	171.393	19.363.703
Non-current / Long Term Assets							
Trade Receivables (net)	-	82.399	30.549	3.125	468.476	-	584.549
Leasing Receivables (net)	-	-	-	-	-	-	-
Due from Related Parties (net)	-	-	-	-	-	-	-
Other Receivables (net)	-	-	-	-	2.230	-	2.230
Financial Assets (net)	186.972.150	56.400	4.659.975	-	58.464.907	(234.674.134)	15.479.298
Goodwill (net)	-	-	-	-	-	(941.365)	(941.365)
Investment Properties (net)	-	-	-	-	41.750.693	(39.641.293)	2.109.400
Real Estate Held for Trading (net)	-	-	-	-	-	-	-
Tangible Assets (net)	1.490.200	14.283.938	24.223.086	56.569.074	62.582.276	39.653.050	198.801.624
Intangible Assets (net)	305.040	4.761.880	296.056	11.563	589.542	391.976	6.356.057
Deferred Tax Assets	1.528.432	823.878	940.936	2.348.666	17.863.684	(18.094.215)	5.411.381
Other Non-current / Long Term Assets	9	40.866	115	-	9.159.631	39	9.200.660
<b>Total Assets</b>	<b>278.884.849</b>	<b>33.035.684</b>	<b>85.446.872</b>	<b>59.332.512</b>	<b>784.100.192</b>	<b>(335.625.820)</b>	<b>905.174.289</b>
<b>LIABILITIES</b>							
Short Term Liabilities							
Financial Debts (net)	-	-	3.030.925	-	25.740.577	351.000	29.122.502
Short Term Portion of Long Term Financial Debts (net)	-	292.334	-	4.218.669	1.579.766	-	6.090.769
Other Financial Liabilities (net)	-	-	-	85.836	-	-	85.836
Trade Payables (net)	23.382	6.311.518	3.957.298	1.024.457	134.494.663	(61.915.381)	83.895.937
Due to Related Parties (net)	6.080	-	368	-	1.344.167	(143.430)	1.207.185
Advances Received	-	2.968.349	4.808.845	-	91.324.695	(3.166)	99.098.723
Contract Income Related to Ongoing Construction Contracts (net)	-	-	-	-	99.070.434	(7.772.826)	91.297.608
Debt Provisions	-	(55.131)	463.329	798.538	5.093.264	(360.335)	5.939.665
Deferred Tax Liability	-	-	-	-	-	-	-
Other Liabilities (net)	219.046	740.738	1.608.166	72.616	6.371.198	(1.251.064)	7.760.700
Long Term Liabilities							
Financial Debts (net)	-	1.099.384	-	13.492.984	6.473.280	-	21.065.648
Leasing Liabilities (net)	-	-	-	-	-	-	-
Other Financial Liabilities (net)	-	-	-	772.523	-	-	772.523
Trade Payables (net)	-	-	-	-	-	-	-
Due to Related Parties (net)	-	-	-	-	-	-	-
Advances Received	-	-	-	-	5.937.965	-	5.937.965
Debt Provisions	421.739	616.651	2.207.132	116.753	4.462.110	-	7.824.385
Deferred Tax Liability	126.461	596.455	1.101.908	377.767	15.666.091	(17.868.682)	-
Other Liabilities (net)	-	44.246	-	-	-	-	44.246
<b>MINORITY INTEREST</b>	-	-	-	-	-	85.999.554	85.999.554
<b>SHAREHOLDERS' EQUITY</b>							
Share Capital	176.207.349	5.907.066	44.401.952	6.362.157	154.235.932	(371.034.456)	16.080.000
Adjustment for Cross Shareholding	-	-	-	-	-	(983.605)	(983.605)
Capital Reserves	42.621.443	-	82.442	-	16.258.675	231.784.596	290.747.156
Profit Reserves	61.005.389	2.279.861	39.879.347	12.361.155	91.288.748	(193.928.328)	12.886.172
Net Profit / (Loss) for the Period	-	-	-	-	-	-	-
Retained Earnings / (Accumulated Losses)	(1.746.040)	12.234.213	(16.094.840)	19.649.057	124.758.627	1.500.303	140.301.320
<b>Total Liabilities and Shareholders' Equity</b>	<b>278.884.849</b>	<b>33.035.684</b>	<b>85.446.872</b>	<b>59.332.512</b>	<b>784.100.192</b>	<b>(335.625.820)</b>	<b>905.174.289</b>

\* Adjusted as per the purchasing power of the Turkish Lira at 31 December 2004.



	Holding	Tourism	Industry and Commerce	Energy	Contracting and Land Development	Elimination	Total
<b>INCOME FROM PRINCIPAL ACTIVITIES</b>							
Sales Income (net)	4.662.697	37.739.676	96.208.448	3.060.179	441.090.943	(13.010.306)	569.751.637
Cost of Sales (-)	(4.031.895)	(22.955.772)	(72.418.144)	(2.466.952)	(399.756.788)	5.764.875	(495.864.676)
Service Income (net)	-	-	-	-	-	-	-
Other Income from Principal Activities/interest+dividend+rent (net)	-	-	-	-	-	-	-
<b>GROSS PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	<b>630.802</b>	<b>14.783.904</b>	<b>23.790.304</b>	<b>593.227</b>	<b>41.334.155</b>	<b>(7.245.431)</b>	<b>73.886.961</b>
Operating Expenses (-)	(1.249.953)	(15.152.400)	(18.133.285)	(1.049.795)	(19.823.899)	5.792.436	(49.616.896)
<b>NET PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	<b>(619.151)</b>	<b>(368.496)</b>	<b>5.657.019</b>	<b>(456.568)</b>	<b>21.510.256</b>	<b>(1.452.995)</b>	<b>24.270.065</b>
Income and Profits from Other Operations	23.991.502	3.502.069	8.745.321	343.449	68.507.192	(5.549.020)	99.540.513
Expenses and Losses from Other Operations (-)	(10.768.578)	(2.003.954)	(3.932.407)	(89.389)	(29.402.953)	61.084	(46.136.197)
Financial Expenses (-)	-	(309.111)	(678.794)	(364.923)	(2.831.523)	-	(4.184.351)
<b>OPERATING PROFIT/(LOSS)</b>	<b>12.603.773</b>	<b>820.508</b>	<b>9.791.139</b>	<b>(567.431)</b>	<b>57.782.972</b>	<b>(6.940.931)</b>	<b>73.490.030</b>
Net Monetary Profit /(Loss)	-	-	-	-	-	-	-
<b>MINORITY INTEREST</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5.622.759)</b>	<b>(5.622.759)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>12.603.773</b>	<b>820.508</b>	<b>9.791.139</b>	<b>(567.431)</b>	<b>57.782.972</b>	<b>(12.563.690)</b>	<b>67.867.271</b>
Taxes	(2.568.244)	(115.261)	(2.029.390)	(1.078.083)	(1.837.421)	-	(7.628.399)
<b>NET PROFIT/(LOSS) FOR THE PERIOD</b>	<b>10.035.529</b>	<b>705.247</b>	<b>7.761.749</b>	<b>(1.645.514)</b>	<b>55.945.550</b>	<b>(12.563.690)</b>	<b>60.238.872</b>

**34. Mergers**

As of 31 December 2005 and 2004, there are no mergers among companies.

**35. Subsequent Events**

- a) The termination indemnity upper limit, which stood at TRY 1.727,15 as of 31 December 2005, has been increased to TRY 1.770,62 with effect from 1 January 2006 and to TRY 1.815,29 with effect from 1 July 2006 [31 December 2004 - TRY 1.574,74].
- b) At the Board of Directors meeting of the subsidiary, Yıltaş Yıldız Turistik Tesisler A.Ş., dated 21 February 2006 nr. 110, resolution is made to increase the share capital of the Company by TRY 100.000, from TRY 50.000 to TRY 150.000.
- c) At the Board of Directors meeting of the subsidiary, Alsim Alarko Sanayi Tesisleri ve Ticaret A.Ş., dated 24 March 2006 nr. 494, resolution is made as per the provisions of the Article 451 of the Turkish Law of Commerce and the Articles 37-39 of the Corporate Tax Law, to constitute a merger through the acquisition of the subsidiary Yıltaş Yıldız Turistik Tesisler A.Ş. by the subsidiary Alsim Alarko Sanayi Tesisleri ve Ticaret A.Ş., and to realize the merger on the basis of the balance sheets as of 31 March 2006, transferring the total assets and liabilities of the subsidiary, Yıltaş Yıldız Turistik Tesisler A.Ş. as stated in its balance sheet as of 31 March 2006, to the subsidiary Alsim Alarko Sanayi Tesisleri ve Ticaret A.Ş..
- d) At the Board of Directors meeting of the subsidiary Alarko Gayrimenkul Yatırım Ortaklığı A.Ş., dated 6 March 2006 nr. 184, resolution is made to deduct the accumulated losses amounting to TRY 3.364.170 from the net profit of TRY 10.183.740 stated in the Company's financial statements of 2005, and after deduction of TRY 449.597 set aside as first legal reserve, to distribute a portion of TRY 1.925.100 by capital increase from the remaining distributable profit amounting to TRY 6.369.973 as dividends in the form of bonus shares, among the shareholders, and to transfer the balancing total of TRY 4.444.873 to the extraordinary legal reserves.
- e) At the Board of Directors meeting of Alarko Carrier Sanayi ve Ticaret A.Ş., a jointly controlled entity, dated 9 March 2006 nr. 564, resolution is made to provide a total of TRY 5.275.548 for taxes and a total of TRY 1.036.928 for the first legal reserves from the profit before tax amounting to TRY 25.004.255 stated in the Company's 2005 financial statements, to offset the accumulated losses amounting to TRY 350.376, and to allocate the balance of TRY 18.341.403 such that a total of TRY 5.508.000 is distributed among shareholders as dividends, the second legal reserve is made for a total of TRY 496.800, and the balance of TRY 12.336.603 is provided as extraordinary reserves. Furthermore, a portion of TRY 3.849.366 of the total distributable profits amounting to TRY 5.508.000 has been provided from the affiliate sales profit acquired from sales of the share certificates of the affiliate, İzocam Ticaret ve Sanayi A.Ş. and for that reason, with respect to the Share Acquisition Contract entered into with Carrier, it has been resolved at the same board meeting that the portion of 2005 dividend coupons of Carrier HVACR Investments B.V. corresponding to this amount be owned by Alarko Holding A.Ş.
- f) At the Ordinary Shareholders' Meeting of the subsidiary Attas Alarko Turistik Tesisler A.Ş., dated 24 March 2006, resolution is made to make a 5% first legal reserve up to 20% of the paid in capital after taxes and legal liabilities are deducted from the TRY 1.276.321,80 of profit for the period stated in the Company's 2005 financials, to pay gross dividends of TRY 530.000 to the shareholders in cash, to provide 10% of the second portion of dividends for second legal reserves, and to add the balance to extraordinary legal reserves.

- g) At the Ordinary Shareholders' Meeting of the subsidiary Alamsaş Alarko Ağır Makina Sanayii A.Ş., dated 24 March 2006, resolution is made to offset the total accumulated losses amounting to TRY 4.788.510,28 constituted as a result of inflation adjustment made as of 31 December 2003 from the differences arising from the inflation adjustment related to shareholders' equity, and to offset the loss for the year 2005 amounting to TRY 468.545,98 from the extraordinary reserves provided from the profit for the year 2000.

### 36. Discontinued Operations

As of 31 December 2005 and 2004, there are no discontinued operations.

### 37. Income from Principal Activities

Income on sales, net, consists of the following (TRY):

	<b>31 December 2005</b>
Domestic sales	302.906.045
Export sales	260.172.774
Other sales	10.022.702
Return on sales (-)	(872.408)
Sales discounts (-)	(2.477.476)
	<b><u>569.751.637</u></b>

Cost of sales consists of the following (TRY) :

	<b>31 December 2005</b>
Cost of finished goods sold	32.735.066
Cost of trade goods sold	509.793
Cost of services sold	369.817.864
Cost of semi-finished goods sold	580.812
Cost of other sales	1.221.141
	<b><u>495.864.676</u></b>

### 38. Operating Expenses

Operating expenses consist of the following (TRY):

	<b>31 December 2005</b>
Research and development expenses	578.977
Marketing, sales, and distribution expenses	11.826.618
General administration expenses	37.211.301
	<b><u>49.616.896</u></b>

### 39. Income/Expense and Profit/Loss from Other Operations

Income and profits from other operations consist of the following (TRY):

	<b>31 December 2005</b>
Dividend income	61.116
Interest income	9.544.626
Commission income	150.214
Provisions no longer required	3.131.117
Profit on sales of marketable securities	17.362.055
Foreign exchange gains	52.182.250
Rediscount interest income	1.547.665
Other income and profits related to operations	13.102.312
Prior period income and profits	3.050
Other extraordinary income and profits	2.456.108
	<b><u>99.540.513</u></b>

Expenses and losses from other operations consist of the following (TRY):

	<b>31 December 2005</b>
Commission expense	107.071
Provision expense	14.212
Foreign exchange losses	38.642.855
Rediscount interest expense	1.155.021
Other ordinary expenses and losses	5.593.897
Prior period expenses and losses	55.018
Other extraordinary expenses and losses	568.123
	<b><u>46.136.197</u></b>

#### 40. Financial Expenses

Financial expenses consist of the following (TRY) :

**31 December 2005**

Short term borrowing expenses	3.417.621
Long term borrowing expenses	766.730

**4.184.351**

#### 41. Net Monetary Profit/Loss

CMB has declared that the high inflation period has come to an end. Therefore as of 31 December 2005, the financial statements are no longer subject to inflation adjustments, hence monetary loss/gain is not reflected to the statement of income.

#### 42. Income Taxes

The corporation tax rate for 2005 is 30% in Turkey (2004 - 33%). This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation and by addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation.

The Group's taxes for the current period are as follows:

**31 December 2005**

Current period tax (Note 23)	7.531.564
Deferred tax expense (Note 14)	96.835

**Total tax expense** **7.628.399**

#### 43. Earnings Per Share

Earnings per share are calculated as follows:

**31 December 2005**

Profit for the period (TRY)	60.238.872
Weighted average number of ordinary shares	15.096.395

(per share of TRY 1 nominal value)

**Earnings per share (TRY)** **3,990**

The Company Management has declared that the distributable profit as per the accompanying financial statements is lower than that stated in the legal books, hence the accompanying financial statements are taken as basis in profit distribution.

#### 44. Statement of Cash Flows

Cash flows realized in the current period are as follows (TRY):

**31 December 2005**

Net cash inflows from principal activities	1.679.056
Net cash outflows from investment activities	(69.992.337)
Net cash inflows from financial activities	21.810.426

#### 45. Other Issues Materially Affecting the Financial Statements or Requiring Disclosure for a Proper Interpretation and Understanding of the Financial Statements

a) Insurance totals of assets with respect to the periods are as follows (TRY);

31 December 2005	384.947.880
31 December 2004	143.959.076

b) As of 31 December 2005, remuneration provided to top executives such as the CEO and members of the Board of Directors amount to TRY 6.979.102 (31 December 2004 - TRY 5.344.778).

c) With effect from 1 January 2005, the currency of the Republic of Turkey was redenominated, with one million Turkish Lira being converted into a new unit of currency known as the New Turkish Lira ("New Turkish Lira"). The smallest unit of currency is the New Kuruş, which represents one-hundredth of one New Turkish Lira.

In the announcement made by the Capital Markets Board in relation to "the financial statements and reports to be presented to public by companies subject to CMB regulations and Capital Markets Establishments during the stage of transition to the New Turkish Lira (TRY)", it is stated that the financial statements for the periods ending at or before 31.12.2004, including the financial data related to prior period that will be used for comparison purposes, shall be disclosed in terms of TRY. Accordingly, the financial statements as of 31 December 2004 have been presented in TRY solely for comparison purposes.

# PROFIT DISTRIBUTION RECOMMENDATION

We recommend that a total amount of TRY 3.053.728 be distributed according to the Turkish Commercial Code, Capital Market Legislation and the Company's Articles of Incorporation out of the TRY 60.238.872 net profit for the period as stated in the consolidated financial statements for the year 2005 presented for the approval of our General Assembly as follows:

- Setting aside TRY 411.214 as first order legal reserves,
- Distributing TRY 1.125.600 (gross) in cash to the shareholders as dividend as of May 31, 2006,
- Deducting the necessary amount of tax out of the dividend subject to income tax,
- Balance to be retained as extraordinary reserves.

## **Board of Directors**

# STATUTORY AUDITORS' REPORT

## TO THE ANNUAL GENERAL MEETING OF ALARKO HOLDİNG A.Ş. THE COMPANY

* NAME	: ALARKO HOLDİNG A.Ş.
* HEADQUARTERS	: Muallim Naci Cad. No: 69 34347 Ortaköy - İstanbul
* CAPITAL	: Registered : TL 25.000.000.000.000 (TRY 25.000.000) Issued : TL 16.080.000.000.000 (TRY 16.080.000)
* PRINCIPAL BUSINESS ACTIVITY	: As indicated in the articles of incorporation

## NAMES, TERMS OF OFFICE AND SHAREHOLDER/EMPLOYEE STATUS OF THE STATUTORY AUDITORS:

1. MUSTAFA AYDIN AYSAN (Term of office: 18.05.2005 - 16.05.2006. He is not a company shareholder or employee.)
2. AHMET ZEYYAT HATİPOĞLU (Term of office: 18.05.2005 - 16.05.2006. He is not a company shareholder or employee.)
3. HALİL KEMAL KAFALI (Term of office: 18.05.2005 - 16.05.2006. He is not a company shareholder or employee.)

## NUMBER OF BOARD OF DIRECTORS MEETINGS PARTICIPATED IN AND BOARD OF STATUTORY AUDITORS MEETINGS HELD:

Three Board of Directors' meetings were participated in and two Board of Statutory Auditors' meetings were held.

## SCOPE OF EXAMINATIONS PERFORMED ON THE COMPANY'S ACCOUNTS, BOOKS AND DOCUMENTS; DATES OF EXAMINATIONS; CONCLUSIONS REACHED:

The company's legal books of accounts and documents were examined twice in compliance with the provisions of the Turkish Commercial Code, laws and regulations, the company's articles of incorporation and the general assembly and board of directors regulations. The first examination occurred on July 28-29, 2005 for the first six months of the year and the second on January 30-31, 2006 for the second six months. The results of both inspections appeared to be satisfactory.

## NUMBER OF COUNTS MADE AT THE COMPANY'S CASH OFFICE AS REQUIRED BY ARTICLE 353 PARAGRAPH 1 SUBPARAGRAPH 3 OF THE TURKISH COMMERCIAL CODE AND THE CONCLUSIONS REACHED:

The company's cash office was inspected four times and a count made.

## DATES OF INSPECTIONS PERFORMED AS REQUIRED BY ARTICLE 353 PARAGRAPH 1 SUBPARAGRAPH 4 OF THE TURKISH COMMERCIAL CODE AND THE CONCLUSIONS REACHED:

The company's records were checked every month to see whether or not the instruments referred to in the Turkish Commercial Code Article 353/1-4 were present. The instruments were observed to be in accordance with the records.

## COMPLAINTS AND IRREGULARITIES REFERRED TO THE STATUTORY AUDITORS AND ACTION TAKEN CONCERNING THEM:

No complaints or irregularities were referred to the statutory auditors from 18.05.2005, the date they assumed their duties, to the present.

We have examined the accounts and transactions of the firm Alarko Holding A.Ş. for the period January 1, 2005 to December 31, 2005 in light of the requirements of the Turkish Commercial Code, the company's articles of incorporation and other laws and regulations as well as of generally accepted accounting principles and standards.

It is our opinion that the attached balance sheet issued as of December 31, 2005, the contents of which we approve, realistically and accurately reflects the financial standing of the company on that date; that the income statement for the period January 1, 2005 to December 31, 2005 similarly reflects the results of its activities for the same period and that the proposal for profit distribution is in compliance with laws and the company's articles of incorporation.

We recommend a vote for the approval of the balance sheet and income statement and for the acquittal of the Board of Directors.

### THE BOARD OF AUDITORS

Prof. Dr. Mustafa Aydın Aysan

Prof. Dr. Ahmet Zeyyat Hatipoğlu

Prof. Dr. Halil Kemal Kafalı

# CONCLUSION

Esteemed Shareholders,

In the previous sections, we tried to summarize the general lines of our activities for the year 2005. We were careful to give you a correct picture by going into details at times. We are sure to succeed in the structural and managerial changes needed to harmonize with the changing conditions in the world and the market through the selfless efforts of our employees.

We would like to thank all our employees for their efforts focused on success in the difficult and strenuous conditions of competition. We would also like to extend our appreciation and thanks to you, our esteemed Shareholders, who have always supported us.

We would like to extend you our regards and wishes for a world in which peace, tranquillity and confidence reign.

Respectfully Yours,

**Board of Directors**