

**AKSIGORTA A.Ş.**

**FINANCIAL STATEMENTS  
AT 31 DECEMBER 2004  
TOGETHER WITH AUDITOR'S REPORT**

## AUDITOR'S REPORT

To the Board of Directors of  
Aksigorta A.Ş.

1. We have audited the accompanying balance sheet of Aksigorta A.Ş. ("the Company") at 31 December 2004 and the related statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish lira as of 31 December 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The financial statements of the Company as at and for the year ended 31 December 2003 were audited by another auditor whose report dated 27 February 2004 expressed an unqualified opinion on those financial statements.
4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we would like to draw your attention to the following matters:

5. As explained in Note 3.1.1 to the financial statements, prior to 1 January 2004, the Company discounted its receivables and payables using the rates announced by the Central Bank of Turkey. In 2004, the Company's management decided to reverse the amount of rediscount on receivables and payables. The effect of this change in the accounting policy amounts to TL 2,980,547 million, net of taxes, and is included in the determination of the net income for the current year.

6. As explained in Note 3.1.2, prior to 1 January 2004, the Company did not account for any deferred income and expenses on the same basis as the premiums to which they relate and any deferred acquisition costs representing direct and indirect costs incurred in acquiring the unearned portion of premiums, primarily related to the acquisition of new business. In 2004, the Company's this accounting policy has been changed to defer commissions and acquisition costs related with premium production in line with the deferral rates of unearned premium reserves. The effect of this change in the accounting policy amounts to TL 3,913,112 million, net of taxes, and has been recognized as a separate component of shareholders' equity.
7. As explained in Note 3.2.1 to the financial statements, an error related to the restatement of the Company's share capital in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" was discovered in previous years. Due to this error, the total paid-in capital was understated by TL 73,816,602 million and retained earnings were overstated by the same amount in the financial statements of the Company at 31 December 2003, with no impact on total shareholders' equity. The impact of correction related with this respective error has been recognized as a separate component of shareholders' equity.
8. As explained in Note 3.2.2 an error related to the restatement of the Company's property and equipment in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" was discovered in previous years. Due to this error, total property and equipment was overstated by TL2,850,840 million and retained earnings were understated by the same amount in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders' equity.
9. As explained in Note 3.2.3 an error related to the restatement of the Company's available-for-sale investments in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" was discovered in previous years. Due to this error, total cost of available-for-sale investments was understated by TL 11,154,035 million and retained earnings were overstated by TL 746,978 million and unrealized gains were overstated by TL 10,407,057 million in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders' equity.

Başaran Nas Serbest Muhasebeci  
Mali Müşavirlik Anonim Şirketi  
a member of  
PricewaterhouseCoopers

Cansen Başaran Symes, SMMM

Istanbul, 5 April 2005

# AKSIGORTA A.Ş.

## BALANCE SHEETS AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

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# AKSIGORTA A.Ş.

## BALANCE SHEETS AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

	Notes	2004	Restated 2003
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	36,777,530	44,981,116
Available-for-sale investments	5	131,735,512	23,676,275
Held to maturity investments	5	-	77,823,050
Premiums receivable, net	6	132,295,848	122,685,539
Due from insurance and reinsurance companies	7	8,275,299	31,398,431
Deferred acquisition costs	8	26,099,169	21,807,142
Other receivables		6,568,854	4,749,351
<b>Total current assets</b>		<b>341,752,212</b>	<b>327,120,904</b>
<b>Non-current assets</b>			
Deferred tax assets	11	3,423,524	5,533,888
Available-for-sale investments	5	958,918,843	734,896,499
Held to maturity investments	5	-	61,900,082
Investment in subsidiary, net of reserve for impairment	9	11,916,139	9,304,625
Property and equipment, net	10	48,610,657	47,638,308
<b>Total non-current assets</b>		<b>1,022,869,163</b>	<b>859,273,402</b>
<b>Total assets</b>		<b>1,364,621,375</b>	<b>1,186,394,306</b>

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

# AKSIGORTA A.Ş.

## BALANCE SHEETS AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

	Notes	2004	Restated 2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Due to insurance and reinsurance companies	7	24,740,406	44,591,817
Taxes payable	11	2,912,701	6,763,697
Other liabilities	12	4,446,857	3,878,969
<b>Total current liabilities</b>		<b>32,099,964</b>	<b>55,234,483</b>
<b>Insurance reserves, net of reinsurance</b>			
Reserve for unearned premiums	13	83,522,835	73,807,700
Deferred commission income		17,471,419	15,279,838
Claims provision	13	23,782,950	24,638,999
Life reserves	13	40,985,296	44,709,006
<b>Total insurance reserves</b>		<b>165,762,500</b>	<b>158,435,543</b>
<b>Non-current liabilities</b>			
Provision for employment termination benefits	14	2,036,545	2,239,234
<b>Total liabilities</b>		<b>199,899,009</b>	<b>215,909,260</b>
<b>Shareholders' equity</b>			
Share capital	15	153,000,000	153,000,000
Adjustment to share capital		192,613,974	192,613,974
Retained earnings		377,427,313	346,096,981
Unrealized gain		441,681,079	278,774,091
<b>Total shareholders' equity</b>		<b>1,164,722,366</b>	<b>970,485,046</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,364,621,375</b>	<b>1,186,394,306</b>

These financial statements have been approved for issue by the General Manager of the Company on 5 April 2005.

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

**AKSIGORTA A.Ş.****STATEMENT OF DEPARTMENTAL REVENUES  
INSURANCE BUSINESS****FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

	<b>2004</b>	<b>2003</b>
Earned premiums, net of reinsurance	174,557,195	133,677,697
Gross premiums written	438,258,697	423,878,295
Outward reinsurance premiums	(253,986,367)	(269,564,614)
Change in reserve for unearned premiums, net of reinsurance	(9,715,135)	(20,635,984)
Claims incurred, net of reinsurance	(132,842,166)	(112,915,307)
Claims Paid - Gross amount	(283,368,484)	(259,221,645)
Claims Paid - Reinsurers' share	153,311,338	159,483,437
Change in claims provision - net of reinsurance	(2,785,020)	(13,177,099)
Change in Mathematical reserves-net	(1,166,295)	(9,728,765)
Commissions, net	(17,025,735)	(3,306,652)
Other income, net	11,294,707	22,535,508
<b>Income from insurance business</b>	<b>34,817,706</b>	<b>30,262,481</b>

The accompanying notes form an integral part of these financial statements

# AKSIGORTA A.Ş.

## STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

	Notes	2004	2003
<b>Income</b>			
Income from insurance business		34,817,706	30,262,481
Interest on marketable securities, net		38,047,633	40,227,303
Gain on sale of equity investments		-	64,977,063
Dividend income		56,668,295	48,316,390
Foreign exchange income		6,379,822	9,318,170
Other income		10,259,456	-
<b>Total income</b>		<b>146,172,912</b>	<b>193,101,407</b>
<b>Expenses</b>			
General and administrative expenses	18	(35,549,018)	(34,074,781)
Provision for overdue and doubtful receivables		(2,370,079)	(10,817,099)
Foreign exchange losses		(8,149,109)	(7,906,764)
Interest expense		(7,006)	(11,439)
Other expenses and losses		-	(2,343,847)
Loss on net monetary position		(32,539,188)	(24,244,915)
<b>Total expenses</b>		<b>(78,614,400)</b>	<b>(79,398,845)</b>
<b>Income before taxation</b>		<b>67,558,512</b>	<b>113,702,562</b>
Taxation on income		(4,161,584)	(4,762,719)
<b>Net income for the year</b>		<b>63,396,928</b>	<b>108,939,843</b>

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

**AKSİGORTA A.Ş.****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED 31 DECEMBER**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

	Share capital	Adjustment to share capital	Retained earnings	Fair value reserves	Total
<b>Balances at January 1, 2003</b>	<b>67,500,000</b>	<b>140,763,123</b>	<b>382,622,768</b>	<b>93,766,777</b>	<b>684,652,668</b>
Dividends paid	-	-	(16,417,974)	-	(16,417,974)
Net gain on available for-sale investments	-	-	-	260,391,433	260,391,433
Net gain on available for-sale investments removed from equity and reported in net income	-	-	-	(64,977,062)	(64,977,062)
Net income for the year	-	-	112,852,955	-	112,852,955
Share capital increase through income from available for-sale investment sale (Note 13)	55,462,988	8,071,261	(63,534,249)	-	-
From revaluation surplus of investments, and property and equipment	30,037,012	(30,037,012)	-	-	-
<b>Balance at 1 January 2004 - as previously reported</b>	<b>153,000,000</b>	<b>118,797,372</b>	<b>415,523,500</b>	<b>289,181,148</b>	<b>976,502,020</b>
Correction of property and equipment	-	-	(2,850,840)	-	(2,850,840)
Correction of UPR, deferred acquisition costs deferred commission income and expense	-	-	(3,913,112)	-	(3,913,112)
Correction in the restatement of available-for-sale investments	-	-	11,154,035	(10,407,057)	746,978
Correction in the restatement in the share capital	-	73,816,602	(73,816,602)	-	-
<b>Balance at 31 December 2003 - as restated</b>	<b>153,000,000</b>	<b>192,613,974</b>	<b>346,096,981</b>	<b>278,774,091</b>	<b>970,485,046</b>
Dividends paid	-	-	(32,066,596)	-	(32,066,596)
Net gain on available for-sale investments	-	-	-	162,906,988	162,906,988
Net income for the period	-	-	63,396,928	-	63,396,928
<b>Balance at December 31, 2004</b>	<b>153,000,000</b>	<b>192,613,974</b>	<b>377,427,313</b>	<b>441,681,079</b>	<b>1,164,722,366</b>

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

**AKSIGORTA A.Ş.****STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED 31 DECEMBER**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities</b>		
Cash used in operations (Note 17)	(24,004,061)	(19,948,767)
Taxes paid	(7,315,623)	(10,376,652)
Employment termination benefits paid	(285,206)	(217,048)
Inflation effect on non-operating activities	440,598	(344,111)
<b>Net cash used in operating activities</b>	<b>(31,164,292)</b>	<b>(30,886,578)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment, investment property and intangible assets	(3,673,086)	(4,481,501)
Proceeds from sale of property and equipment	163,306	2,372,646
Increase/ (decrease) in investments	(194,299,060)	(302,793,505)
Increase in associated investments	(2,611,514)	(3,097,622)
Interest received	39,988,242	38,238,695
Dividends received	56,668,295	48,316,390
<b>Net cash provided by investing activities</b>	<b>(103,763,817)</b>	<b>(221,444,897)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(32,066,596)	(16,417,974)
Inflation effect on financing activities	162,906,987	195,414,369
Increase in share capital	-	63,534,250
<b>Net cash used in financing activities</b>	<b>130,840,391</b>	<b>242,530,645</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(4,087,718)</b>	<b>(9,800,830)</b>
<b>Inflation effect on cash and cash equivalents</b>	<b>(4,115,868)</b>	<b>(10,222,638)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>44,981,116</b>	<b>65,004,584</b>
<b>Cash and cash equivalents at end of year (Note 4)</b>	<b>36,777,530</b>	<b>44,981,116</b>

The accompanying notes form an integral part of these financial statements

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

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### NOTE 1 - NATURE OF OPERATIONS

Aksigorta A.Ş. ("the Company") is registered in Istanbul, Turkey, and was established in 1960. The Company is engaged in all types of property and casualty business. The Company's head office is located in Istanbul and it has 445 employees as at 31 December 2004 (2003:407 employees).

The address of the registered office is as follows:

Meclis-i Mebusan Cad. No: 147  
Fındıklı 34427 Istanbul, Turkey

### NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company maintains its books of account and prepares its statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code (the "TCC"), Insurance Supervisory Law and tax legislation (collectively, "Turkish Practices").

The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention, (except for the revaluation of property and equipment as discussed in Note 10) with adjustments and reclassifications including restatement for the changes in the general purchasing power of the Turkish Lira for the purpose of fair presentation in accordance with International Financial Reporting Accounting Standards ("IFRS") issued by the International Accounting Standards Board. In accordance with a new tax law that was enacted on 30 December 2003, effective from 1 January 2004, the statutory financial statements are prepared by adjusting the non-monetary assets and liabilities for the changes in general purchasing power of the Turkish lira.

The restatement for the changes in the general purchasing power of the Turkish lira as of 31 December 2004 is based on IAS 29 "Financial Reporting in Hyperinflationary Economies" which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. Hyperinflation is indicated by characteristics of the economic environment of a country which include the following: the general population prefer to keep its wealth in non-monetary assets or in a relatively stable currency; sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period even if the period is short; interest rates, wages and prices are linked to a price index and cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). The indices and conversion factors used to restate these accompanying financial statements during the current and prior years are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>	<u>Three-year cumulative inflation rates</u>
<b>31 December 2004</b>	<b>8,404</b>	<b>1.000</b>	<b>69.7%</b>
31 December 2003	7,382	1.138	181.1%
31 December 2002	6,479	1.297	227.3%

**NOTES TO FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 31 December 2004)

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)**

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities, which are carried at the amounts current at the balance sheet date, 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 which are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant (monthly, yearly average, period-end) conversion factors. Additions to property and equipment in the year of acquisition are restated using the relevant conversion factors.
- Comparative financial statements are restated in terms of the measuring unit current at the currency purchasing power at the latest balance sheet date.
- All items in the statements of income are restated by applying the relevant conversion factors (monthly, yearly average, year-end).
- The effect of inflation on the Company's net monetary position is included in the statement of income on net monetary position.

**NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES**

**3.1 Changes in accounting policies**

3.1.1 Prior to 1 January 2004, the Company discounted its receivables and payables using the rates announced by the Central Bank of Turkey. In 2004, the Company's management decided to reverse the amount of rediscount on receivables and payables. The effect of this change in the accounting policy amounts to TL 2,980,547 million, net of taxes, and is included in the determination of the net income for the current year (Note 3.3).

3.1.2 Prior to 1 January 2004, the Company did not account for any deferred income and expenses on the same basis as the premiums to which they relate and any deferred acquisition costs representing direct and indirect costs incurred in acquiring the unearned portion of premiums, primarily related to the acquisition of new business. In 2004, the Company's management decided to defer commissions and acquisition costs related with premium production in line with the deferral rates of unearned premium reserves. The effect of this change in the accounting policy amounts to TL 3,913,112 million, net of taxes, and has been recognized as a separate component of shareholders' equity (Note 3.3).

**3.2. Correction of errors**

3.2.1 An error related to the restatement of the Company's share capital in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies” was discovered in previous years. Due to this error, the total paid-in capital was understated by TL 73,816,602 million and retained earnings were overstated by the same amount in the financial statements of the Company at 31 December 2003, with no impact on total shareholders' equity. The impact of correction related with this respective error has been recognized as a separate component of shareholders' equity (Note 3.4).

**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 31 December 2004)

**NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)**

- 3.2.2 An error related to the restatement of the Company’s property and equipment in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies” was discovered in previous years. Due to this error, total property and equipment was overstated by TL 2,850,840 million and retained earnings were understated by the same amount in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders’ equity (Note 3.3).
- 3.2.3 An error related to the restatement of the Company’s available-for-sale investments in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies” was discovered in previous years. Due to this error, total cost of available-for-sale investments was understated by TL 11,154,035 million and retained earnings were overstated by TL 746,978 million and unrealized gains were overstated by TL 10,407,057 million in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders’ equity (Note 3.4).
- 3.2.4 Prior to 1 January 2004, investment in associate, Ak Emeklilik A.Ş., was carried at cost less any impairment in value. In accordance with IAS 28 “Accounting for Investments in Associates” the associated company should have been accounted for under the equity method. Due to this error, the balance of investment in associate was understated by TL 2,532,995 million in the financial statements of the Company at 31 December 2003. The correction of the respective error is included in the determination of net income for the period (Note 3.3).

**3.3 Restated pro forma information**

Restated pro forma information for 2004 is presented below and as if the new accounting policies, as explained in Note 3.1.1 and Note 3.1.2 had been applied at 31 December 2003, as if the error related to the restatement of property and equipment as explained in Note 3.2.2 had been corrected in 2003 as if the error related to the restatement of available-for sale investments as explained in Note 3.2.4 had been corrected and as if the error related to accounting for investment in associate as explained in Note 3.2.3 had been corrected in 2003.

**Statement of Changes in Shareholders’ Equity:**

	<b>2004</b>	<b><u>Pro forma</u></b> <b>2004</b>
Opening retained earnings (*)	352,113,955	352,113,955
Correction of error (Note 3.2.3)	-	2,532,995
Change in accounting policy (Note 3.1.1)	-	2,980,547
Correction of error (Note 3.2.2)	(2,850,840)	(2,850,840)
Correction of error (Note 3.2.4)	746,978	746,979
Correction of error (Note 3.1.2)	(3,913,112)	(3,913,112)
Opening retained earnings as restated	346,096,981	351,610,524
Dividends paid	(32,066,596)	(32,066,596)
Net income for the period	63,396,928	57,883,385
<b>Closing retained earnings</b>	<b>377,427,313</b>	<b>377,427,313</b>

(\*) After the restatement relating to the restatement of share capital.

**NOTES TO FINANCIAL STATEMENTS****31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

**NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)****3.4 Comparatives and restatement of balance sheet at 31 December 2003**

When necessary, comparative figures of balance sheet have been adjusted and reclassified to conform with changes in presentation in the current period.

The comparative figures have been adjusted to take into account the correction of error in the restatement of paid-in capital (Note 3.2.1), property and equipment (Note 3.2.2), available-for-sale investments (Note 3.2.4) and unearned premium reserves, deferred acquisition costs, deferred commission income and expense (Note 3.1.2).

The effects of the restatement are stated below:

	<b>31 December 2003 restated</b>	<b>31 December 2003 previously reported</b>
Adjustment to share capital	192,613,974	108,257,727
Correction of property and equipment	(2,850,840)	-
Correction in the restatement of available-for-sale investments	746,978	-
Correction of UPR, deferred acquisition costs, deferred commission income and expense	(3,913,112)	-
Retained earnings	352,113,955	415,523,501
	<b>538,710,955</b>	<b>523,781,228</b>

**3.5. Premium income**

Premium income represents premiums on policies written during the year, net of cancellations.

Unearned premiums, set aside to provide for the period of risk extending beyond the end of the financial year, are determined from premiums written during the year on daily pro-rata basis.

**3.6. Deferred acquisition costs**

Deferred acquisition costs represent the direct and indirect costs, including commission expenses, that incurred in acquiring the unearned portion of premiums vary with and are primarily related to the acquisition of new business. These costs are deferred and amortised over the period in which the related premiums written are earned (Note 8).

**3.7. Claims**

Claims are recorded in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events which have occurred up to the end of the accounting period. Full provision is made for outstanding claims, including claim settlements reported at the year-end. Incurred but not reported claims (IBNR) are also provided for under claim provisions (Note 13).

Furthermore, the Company performed liability adequacy test for the outstanding claims in the line with the regulation of Ministry of Treasury dated 27 January 2004 No:25359. No additional claim reserves are accounted for as of 31 December 2004.

Claim recoveries are accounted for by the collection of the recovery.

**NOTES TO FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 31 December 2004)

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**NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)**

**3.8. Mathematical reserves**

Mathematical reserves are the difference between the net present values of premiums written in return of the risk covered by the Company and the liabilities to policyholders. In policies where the accumulation premium is written additionally, life insurance provision is the sum of the remainder of collected premiums and accumulated life insurance provision. Mathematical reserves are computed on the basis of actuarial mortality assumptions as approved by the Treasury Department, which are applicable for Turkish Insurance Companies (Note 13).

**3.9. Provision for overdue and doubtful receivables**

The Company’s management provides a general provision for insurance receivables based on their evaluation and factors such as the volume and character of the receivables, past experience and general economic conditions. Additionally, Company management assesses the volume and character of receivables and provides specific provision for doubtful debts, where necessary.

A credit risk provision for receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception. Management believes that no additional credit risk beyond amounts provided of additional losses is inherent in the Company’s receivables.

The provision made during the period is charged against the income for the period. Receivables that cannot be recovered are written off and charged against the allowance for overdue receivables. Such receivables are written off after all necessary legal proceedings have been completed and the amount of the losses is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provisions for overdue receivables for the period (Note 6).

**3.10. Property and equipment**

All property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Vehicles	5 years
Furniture and fixtures	10 years
Special Costs	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount (“higher of net selling price and value in use”), it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Expenses for the repair of property and equipment are charged against income. They are, however, capitalised if they result in an enlargement or substantial improvement of the respective assets (Note 10).

**NOTES TO FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 31 December 2004)

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**NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)**

**3.11. Investment in associate**

Investments in associated companies are accounted for by the equity method of accounting. These are undertakings in which the Company has between 20% and 50% of the voting rights, and over which the Company exercises significant influence, but which it does not control.

Equity accounting involves recognizing in the income statement the Company’s share of the associate’s profit or loss for the year. The Company’s interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

Dividends received from the associates are deducted from the carrying amount of the associate at the date when dividends are received.

Effective from 1 January 2004, Ak Emeklilik A.Ş. is accounted for by the equity method of accounting. Prior to this date, the associated investment was carried at cost, less any provision for impairment (Note 3.2.3, Note 9).

**3.12. Investment securities**

The Company classified its investment securities into the following two categories: held-to-maturity and available-for-sale investments. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Held-to-maturity securities are carried at amortized cost using the effective yield method, less any provision for impairment.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale; and are included in non-current assets unless management has expressed intention of hold in of the investment for less than 12 months from the balance sheet date.

Available-for-sale debt and equity investment securities are subsequently re-measured at fair value based on quoted bid prices, prices quoted by the İstanbul Stock Exchange (“ISE”). Investments in equity instruments which do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable are carried at cost less any impairment.

Unrealized gain and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity (Note 5).

**3.13. Provision for employment termination benefits**

Employment termination benefits as required by the Turkish Labour Law, are recognized in these financial statements as they are earned. The total provision represents the present value of future probable obligation of the Company arising from the retirement of employees (Note 14).

**NOTES TO FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 31 December 2004)

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**NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)**

**3.14. Deferred income taxes**

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used to in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised (Note 11).

**3.15. Related parties**

For the purpose of the accompanying financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by or affiliated with them, and investments are considered and referred to as related parties (Note 19).

**3.16. Translation of foreign currencies**

Transactions in foreign currencies during the year are translated into Turkish lira at the exchange rates prevailing at the dates of the transactions. Balance sheet items denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet dates. Exchange gains and losses arising from the settlement and translation of foreign currency items are included in the related income and expense accounts, as appropriate.

**3.17. Financial instruments**

*Foreign exchange rate risk*

The Company is exposed to foreign exchange rate risk through the impact of rate changes at the translation of Turkish lira pertaining to foreign currency denominated assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position.

*Credit risk*

Ownership of financial assets involves the risk that counterparts may be unable to meet the terms of their agreements. These risks are monitored by the management by limiting the aggregate risk to any individual counterpart and covered by collaterals if deemed necessary.

*Interest rate risk*

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

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### NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)

#### *Fair value of financial instruments*

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies to the extent that relevant and reliable information is available from the financial markets in Turkey. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

#### *Monetary assets*

The fair values of balances denominated in foreign currencies, which are translated at period end exchange rates, are considered to approximate carrying values.

The fair values of certain financial assets carried at cost, including cash and cash equivalents are considered to approximate their respective carrying values due to their short-term nature.

The fair values of marketable securities are determined by reference to the market values, approximate to carrying values.

The fair value of premiums receivable along with related provision for overdue receivables is considered to approximate respective carrying values due to their short-term nature.

#### *Monetary liabilities*

The fair values of monetary liabilities are considered to approximate to their respective carrying values due to their short-term nature.

#### **Cash and cash equivalents**

For the purposes of cash flows statement, cash and cash equivalents comprise cash in hand, amounts due from banks and loan to banks secured with treasury bills and government bonds.

	<b>2004</b>	<b>2003</b>
Cash and due from banks	35,876,646	40,086,867
Loan to banks	900,884	4,894,249
	<b>36,777,530</b>	<b>44,981,116</b>

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#### **3.18. Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 4 - CASH AND CASH EQUIVALENTS

	2004	2003
Cash in hand	772	3,365
Bank deposits	35,875,874	40,083,502
Loan to banks	900,884	4,894,249
	<b>36,777,530</b>	<b>44,981,116</b>

Bank deposits are further analysed as follows:

	2004	2003
Foreign currency denominated bank deposits		
- demand deposits	197,482	315,656
- time deposits	1,207,940	4,369,810
	<b>1,405,422</b>	<b>4,685,466</b>
Bank deposits in Turkish lira		
- demand deposits	8,124,257	9,214,782
- time deposits	26,346,195	26,183,254
	<b>34,470,452</b>	<b>35,398,036</b>
	<b>35,875,874</b>	<b>40,083,502</b>

The Company makes credit card collections through deposits in banks. Due to the agreements between the client and the banks, credit card collections are blocked in the bank accounts for a time period of 10 to 28 days. As of December 2004 the company has TL 11,657,660 million (2003: TL 9,249,869 million) blocked deposits at various banks.

Foreign currency denominated time deposits are as follows:

	Amount in original currency		TL million Equivalent	
	2004	2003	2004	2003
US\$	900,000	2,750,000	1,207,890	4,369,810

Time deposits have maturities less than one year and their interest rates are as follows :

	Interest rate per annum (%)	
	2004	2003
TL	19%-21%	28%-24%
US\$	1.50%	1.75%

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 4 - CASH AND CASH EQUIVALENTS

Foreign currency denominated demand deposits are as follows:

	Amount in original currency		TL million equivalent	
	2004	2003	2004	2003
US\$	5,937	133,176	7,981	218,452
GBP	9,110	8,341	23,472	23,515
CHF	5,449	4,132	6,433	5,252
JPY	314,796	263,488	4,065	3,908
EURO	85,139	29,044	155,531	64,529
			<b>197,482</b>	<b>315,656</b>

### NOTE 5 - INVESTMENT SECURITIES

The analysis of held-to-maturity investments is as follows:

	31 December 2004	31 December 2003
Current:		
Government bonds	-	77,823,050
<b>Total current</b>	<b>-</b>	<b>77,823,050</b>
Non-current:		
Government bonds	-	44,273,380
Eurobonds	-	17,626,702
<b>Total non-current</b>	<b>-</b>	<b>61,900,082</b>
<b>Total held-to-maturity investments</b>	<b>-</b>	<b>139,723,132</b>

#### Blocked:

Held-to-maturity securities

	31 December 2004		31 December 2003	
	Amortised cost	Interest rate (%)	Amortised cost	Interest rate (%)
Government bonds	-	-	62,575,494	24.84-29.49
	-	-	<b>62,575,494</b>	

**AKSIGORTA A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

**NOTE 5 - INVESTMENT SECURITIES (Continued)**

**Free**

Held-to-maturity securities

	31 December 2004		31 December 2003	
	Amortised cost	Interest rate (%)	Amortised cost	Interest rate (%)
Held-to-maturity securities				
Government bonds	-	-	59,520,936	28.60-35.43
Eurobonds	-	-	17,626,702	7.95-9.87
	-	-	<b>77,147,638</b>	
<b>Total held-to-maturity securities</b>	-	-	<b>139,723,132</b>	

The Company does not have any held-to-maturity securities as of 31 December 2004. (The Company has TL 62,575,494 million blocked investments in favour of the Undersecretariat of Treasury as of 31 December 2003. Market values of total held-to-maturity securities amount to TL 146,819,287 million as of 31 December 2003).

The analysis of the held-to-maturity securities by maturities is as follows:

	31 December 2004					
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	Total
Eurobonds	-	-	-	-	-	-
Government bonds	-	-	-	-	-	-
	-	-	-	-	-	-
	31 December 2003					
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	Total
Eurobonds	-	-	-	-	17,626,702	17,626,702
Government bonds	-	40,692,902	-	37,130,148	44,273,380	122,096,430
	-	<b>40,692,902</b>	-	<b>37,130,148</b>	<b>61,900,082</b>	<b>139,723,132</b>

**AKSİGORTA A.Ş.****NOTES TO FINANCIAL STATEMENTS****31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

**NOTE 5 - INVESTMENT SECURITIES (Continued)**

The analysis of available-for-sale investments is as follows:

	<b>31 December 2004</b>	<b>31 December 2003</b>
Current:		
Government bonds	106,717,688	-
Mutual Funds	25,017,824	23,676,275
<b>Total current</b>	<b>131,735,512</b>	<b>23,676,275</b>
Non-current:		
Government bonds	42,798,777	-
Equity investments	916,120,066	734,896,499
<b>Total non-current</b>	<b>958,918,843</b>	<b>734,896,499</b>
<b>Total available-for-sale investments</b>	<b>1,090,654,355</b>	<b>758,572,774</b>

The analysis of available-for-sale investments is as follows:

**Blocked**

	<b>31 December 2004</b>		<b>31 December 2003</b>	
	<b>Carrying value</b>	<b>Interest rate (%)</b>	<b>Carrying value</b>	<b>Interest rate (%)</b>
Government bonds	58,952,369	12.50-24.84	-	-
Equity investments	15,484,131	-	14,901,085	-
	<b>74,436,500</b>		<b>14,901,085</b>	

**Free**

	<b>31 December 2004</b>		<b>31 December 2003</b>	
	<b>Carrying value</b>	<b>Interest rate (%)</b>	<b>Carrying value</b>	<b>Interest rate (%)</b>
Government bonds	90,564,096	6.30-24.84%	-	-
Mutual Funds	25,017,824	-	23,676,275	-
Equity Investment	900,635,935	-	719,995,414	-
	<b>1,016,217,855</b>		<b>743,671,689</b>	-
<b>Total available-for-sale investments</b>	<b>1,090,654,355</b>		<b>758,572,774</b>	

# AKSİGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

#### NOTE 5 - INVESTMENT SECURITIES (Continued)

The Company has TL74,436,500 million blocked available for sale investments (2003: 14,901,085) in favour of the Undersecretariat of Treasury.

31 December 2004						
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	Total
Government bonds	-	-	64,181,656	42,536,032	42,798,777	149,516,465
Mutual Funds	25,017,824	-	-	-	-	25,017,824
	25,017,824	-	64,181,656	42,536,032	42,798,777	<b>174,534,289</b>

31 December 2003						
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	Total
Mutual Funds	23,676,275	-	-	-	-	23,676,275
	23,676,275	-	-	-	-	<b>23,676,275</b>

At 7 April 2004 the Company sold government bonds and Eurobonds held under held-to-maturity investments as of 31 March 2004 and 31 December 2003. At 31 March 2004, the amortized costs of these government bonds and Eurobonds amount to TL25,202,603 million and TL 14,671,456 million and the fair values amount to TL 26,112,077 million and TL16,550,339 million, respectively (Note 5). The Company recorded a gain of TL 1,815,805 million from the sale of these securities. In accordance with IAS 39, the Company will not classify any of its financial assets as held-to-maturity for two full financial years beginning from the date of sale.

The breakdown of available-for-sale equity investments is as follows:

	31 December 2004	
	Carrying value	Shareholding %
<b>Listed equity securities carried at fair value</b>		
Akbank T.A.Ş. (Akbank)	833,724,639	6.62
Akçansa Çimento San. ve Tic. A.Ş. (Akçansa)	59,516,184	7.47
Çimsa Çimento San. ve Tic. A.Ş. (Çimsa)	14,628,152	2.57
Yünsa Yünlü San. ve Tic. A.Ş. (Yünsa)	639,850	1.49
	<b>908,508,825</b>	
<b>Unlisted securities carried at cost</b>		
Tursa	4,385,577	2.57
Temsa	3,206,152	2.70
Ak Menkul	16,504	-
BNP	2,400	-
Dönkasan	608	-
	<b>7,611,241</b>	
<b>Total available-for-sale equity investments</b>	<b>916,120,066</b>	

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2004

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#### NOTE 5 - INVESTMENT SECURITIES (Continued)

	31 December 2003	
	Carrying value	Shareholding %
<b>Listed equity securities carried at fair value</b>		
Akbank	658,004,202	6.62
Akçansa	56,163,598	7.47
Çimsa	12,044,912	2.57
Yünsa	816,668	1.49
	<b>727,029,380</b>	
<b>Unlisted securities carried at cost</b>		
Türsa (*)	4,641,455	2.57
Temsa	3,206,152	2.7
Ak Menkul	16,504	-
BNP	2,400	-
Dönkasan	608	-
	<b>7,867,119</b>	
<b>Total available-for-sale equity investments</b>	<b>734,896,499</b>	

Unlisted securities above are carried at cost since they do not have quoted market prices in active markets and other methods of reasonably estimating fair value are unworkable.

(\*) As of 31 December 2004, the Company set an impairment provision for its investment in Türsa in the amount of TL17,004,226 million (2003: TL11,966,832 million) and related amount is reflected in the income statement.

#### NOTE 6 - PREMIUMS RECEIVABLE, NET

	2004	2003
Agencies	128,284,140	115,749,396
Policyholders	255,212	1,077,919
Receivables in legal follow-up	10,255,728	16,102,494
	<b>138,795,080</b>	<b>132,929,809</b>
Provision for overdue receivables	(150,599)	(2,676,940)
Provision for receivables under legal follow-up	(6,348,633)	(7,567,330)
<b>Provision for overdue and doubtful receivables</b>	<b>(6,499,232)</b>	<b>(10,244,270)</b>
	<b>132,295,848</b>	<b>122,685,539</b>

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 6 - PREMIUMS RECEIVABLE, NET (Continued)

According to the Regulations for Establishment and Operations of Insurance and Reinsurance Companies, published in the Official Gazette dated 26 December 1994, No: 22153, insurance companies are obliged to account for a provision for receivables overdue for two months from agencies and policyholders. At 31 December 2004, the provision for overdue and doubtful receivables includes TL 6,348,633million (31 December 2003: TL 7,567,330million) for receivables under legal follow up.

According to Turkish insurance regulations, real and legal entities which will act as agents, are required to provide collateral as a guarantee before beginning their operations. For real entity agents the amount of collateral is determined as TL 250,000,000.

Accordingly, guarantees obtained against agency receivables were as follows:

	2004	2003
Bank letters of guarantee	3,759,284	3,033,382
Mortgages	48,429,565	47,670,872
Marketable securities	142,811	158,746
Other cash guarantees	379,014	303,532
	<b>52,710,674</b>	<b>51,166,532</b>

### NOTE 7 - AMOUNTS DUE TO/FROM INSURANCE AND REINSURANCE COMPANIES, PREMIUMS RESERVE AND DEPOSITS WITH CEDING AND RETROCEDING COMPANIES

#### Due from insurance and reinsurance companies

	2004	2003
La Vittori RI	2,021,517	1,804,454
Allianz Nederland	918,768	1,045,927
Wtc Insurance Corporation Ltd.	646,334	-
Gerling Konzern Globale	580,874	4,429,481
La Suisse Compagnie	541,564	70,828
Assurances Generales de France	352,321	398,251
Munich RE	309,047	782,212
Fair Pool	289,180	-
R+V Rückversicherung	258,652	798,043
Jauch Huggener	246,339	280,427
Mafre Amex	225,544	269,147
Others	1,885,159	21,519,661
	<b>8,275,299</b>	<b>31,398,431</b>

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 7 - AMOUNTS DUE TO/FROM INSURANCE AND REINSURANCE COMPANIES, PREMIUMS RESERVE AND DEPOSITS WITH CEDING AND RETROCEDING COMPANIES (Continued)

#### Due to insurance and reinsurance companies

	<b>2004</b>	<b>2003</b>
ACE INA Overseas Insurance Company Ltd.	3,862,240	9,578,868
Transatlantic Reinsurance Company	3,291,446	8,182,714
Korean Reinsurance Company	1,524,567	1,347,327
Aon Ltd	1,507,420	929,411
Kararname Pool	1,345,394	1,600,971
Odyssey RE	1,321,017	-
Marsh Ltd.	1,194,420	-
Destek Reasürans T.A.Ş.	1,112,565	1,298,396
İzmit Dep. Has. Trete Reasürans	863,486	1,179,962
Partner Re	686,121	1,438
Allianz New York	661,189	646,288
Willis Ltd	660,243	1,108,018
Scor Re	659,194	-
Interpartner Assistance	634,679	-
Axa Corporate Solutions Assurance	534,771	810,077
Other	4,881,654	19,958,170

**Due to insurance and reinsurance companies** **24,740,406** **46,641,640**

**(Rediscount)** - **(2,049,823)**

**Due to insurance and reinsurance companies** **24,740,406** **44,591,817**

Foreign currency denominated items included in due from insurance and reinsurance companies, including deposits with ceding and retroceding companies are as follows:

	<u>Amount in original currency</u>		<u>TL million equivalent</u>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
US\$	966,668	2,407,842	1,303,649	3,826,113

### NOTE 8 - DEFERRED ACQUISITION COSTS

	<b>2004</b>	<b>2003</b>
Deferred commission expense	22,433,660	18,505,264
Deferred general and administrative expenses	3,665,509	3,301,878
	<b>26,099,169</b>	<b>21,807,142</b>

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

#### NOTE 9 - INVESTMENT IN SUBSIDIARY, NET OF RESERVE FOR IMPAIRMENT

	31 December 2004	Shareholding %	31 December 2003	Shareholding %
Ak Emeklilik A.Ş.	11,916,139	26.00	9,304,625	26.00
	<b>11,916,139</b>		<b>9,304,625</b>	

As of 31 December 2004, Ak Emeklilik A.Ş. is accounted for by the equity method of accounting. As of 31 December 2003, the associated investment was carried at cost less any provision for impairment (Note 3.2.3).

#### NOTE 10 - PROPERTY AND EQUIPMENT

	Previously Reported 31 December 2003	Correction	1 January 2004	Additions	Disposals	31 December 2004
<b>Cost</b>						
Land	6,078,454	(690,587)	5,387,867	65,799	-	5,453,666
Buildings	44,874,660	(2,213,785)	42,660,875	1,051,584	-	43,712,459
Vehicles	1,394,956	363,783	1,758,739	38,612	(406,835)	1,390,516
Furniture and fixtures	16,037,692	81,094	16,118,786	1,776,646	(4,796)	17,890,636
Special Cost	-	511,006	511,006	698,808	-	1,209,814
Construction in Progress	-	-	-	41,639	-	41,639
	<b>68,385,762</b>	<b>(1,948,489)</b>	<b>66,437,273</b>	<b>3,673,088</b>	<b>(411,631)</b>	<b>69,698,730</b>
<b>Accumulated depreciation</b>						
Buildings	(8,549,741)	238,239	(8,311,502)	(861,641)	-	(9,173,143)
Vehicles	(383,924)	(356,767)	(740,691)	(260,612)	350,491	(650,812)
Furniture and fixtures	(8,962,947)	(287,994)	(9,250,941)	(1,496,733)	3,677	(10,743,997)
Special Cost	-	(495,831)	(495,831)	(24,290)	-	(520,121)
	<b>(17,896,612)</b>	<b>(902,353)</b>	<b>(18,798,965)</b>	<b>(2,643,276)</b>	<b>354,168</b>	<b>(21,088,073)</b>
<b>Net book value</b>	<b>50,489,150</b>	<b>(2,850,842)</b>	<b>47,638,308</b>			<b>48,610,657</b>

An error related to the restatement of the Company's property and equipment in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" was discovered in previous years. Due to this error, total property and equipment was overstated by TL 2,850,840 million and retained earnings were understated by the same amount in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders' equity.

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 11 - TAXATION

	2004	2003
Corporation and income taxes	2,912,701	6,763,697
	<b>2,912,701</b>	<b>6,763,697</b>
Deferred tax assets	(18,631,601)	(14,024,388)
Deferred tax liabilities	15,208,077	8,490,500
<b>Total taxes payable</b>	<b>(510,823)</b>	<b>1,229,809</b>

Corporation tax is payable at a rate of 33% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed. Corporation tax rate on the total income of following years will be 30%.

In accordance with Tax Law No: 5024 “Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law” that was published in the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers prepare their tax financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish lira.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 33% on their corporate income. Advance tax is payable by the 17<sup>th</sup> of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Capital expenditures, with some exceptions, over TL6 billion are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowances utilized within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 15<sup>th</sup> of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

#### NOTE 11 - TAXATION (Continued)

The taxation on income for the years ended 31 December 2004 and 2003, expressed in terms of the purchasing power of the Turkish lira at 31 December 2004, is summarised as follows:

	<b>2004</b>	<b>2003</b>
Provision for taxes per accompanying statements of income		
- Current	(3,052,036)	(6,916,167)
- Deferred	(1,109,548)	2,153,448
	<b>(4,161,584)</b>	<b>(4,762,719)</b>

The tax charge for the Company may be reconciled as follows:

	<b>2004</b>	<b>2003</b>
Historical income before taxation per financial statements not restated	53,143,656	53,700,394
Equalisation reserve	9,371,947	7,776,630
Taxable/(deductible) income on marketable securities and time deposits	1,008,893	2,289,935
Disallowable expenses	281,548	311,915
Rediscount of receivables and payables	(401,522)	3,754,103
Exempt income on dividends	(53,016,191)	(47,392,441)
Employee termination benefit	1,010,957	904,808
Premium receivable provision	(3,361,887)	1,647,191
Other	788,968	(446,880)
Taxable income for Turkish tax legislation	8,826,369	22,545,655
Corporate tax at 33% (2003: 30%)	2,912,701	6,763,697
Inflation adjustment	139,335	152,470
Taxation on current year profit	<b>3,052,036</b>	<b>6,916,167</b>

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 11 - TAXATION (Continued)

#### Deferred taxes

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2005 under the liability method using a principal tax rate of 30% at 31 December 2004. The breakdown of cumulative temporary differences and the resulting deferred tax assets provided at 31 December, using the enacted tax rates, are as follows:

The movement on the deferred tax account is as follows:

	2004	2003
At the beginning of the year	5,533,888	4,024,930
Charge for the year	(2,110,364)	1,508,958
<b>Deferred tax (liabilities)/assets, net</b>	<b>3,423,524</b>	<b>5,533,888</b>

The deferred tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return, in accordance with the applicable tax law.

The temporary differences giving rise to the deferred tax assets and deferred tax liabilities are as follows:

	Cumulative temporary differences		Deferred tax liabilities	
	2004	2003	2004	2003
<b>Deferred tax liabilities</b>				
Reserve for unearned premiums, reinsurers' share	20,887,865	947,912	6,266,359	312,811
Deferred acquisition costs	26,099,169	21,807,142	7,829,751	7,196,357
Net difference between the tax base and the carrying value of property and equipment	-	3,271,107	-	981,332
Difference between the carrying value of the government bonds and treasury bills reported in the financial statements and their tax base	3,706,555	-	1,111,967	-
			<b>15,208,077</b>	<b>8,490,500</b>

**AKSIGORTA A.Ş.**

**NOTES TO FINANCIAL STATEMENTS  
31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

**NOTE 11 - TAXATION (Continued)**

	<u>Cumulative temporary differences</u>		<u>Deferred tax assets</u>	
	2004	2003	2004	2003
<b>Deferred tax assets</b>				
Provision for employment termination benefits	2,036,545	2,239,234	610,963	671,770
Reserve for unearned premiums, gross	37,634,252	13,315,681	11,290,276	4,394,175
Deferred commissions income	17,471,419	15,279,838	5,241,426	5,042,346
Provision for doubtful and overdue receivables	-	2,676,939	-	803,083
Net difference between the tax base and the carrying value of property and equipment	339,659	-	101,898	-
Difference between the carrying value of the government bonds and treasury bills reported in the financial statements and their tax base	-	3,082,617	-	1,017,264
Rediscount of Receivables	2,896,173	6,350,759	868,852	2,095,750
Claims incurred but not reported	1,599,071	-	479,721	-
Provision for employee vacation accrual	128,215	-	38,465	-
			18,631,601	14,024,388
<b>Deferred tax (liabilities)/assets, net</b>			<b>3,423,524</b>	<b>5,533,888</b>

**NOTE 12 - OTHER LIABILITIES**

	2004	2003
Taxes and funds payable	2,555,911	2,353,437
Commission payable to agent	135,155	174,569
DASK temporary account	257,900	334,028
Payable to suppliers	1,143,146	777,109
Other	354,745	239,826
	<b>4,446,857</b>	<b>3,878,969</b>

**NOTE 13 - INSURANCE RESERVES**

	2004	2003
Unearned premiums reserve	183,275,450	165,093,893
Unearned premiums reserve, reinsurers' share	(99,752,615)	(91,286,193)
	<b>83,522,835</b>	<b>73,807,700</b>
Life-mathematical reserve	13,206,702	13,471,762
Life-profit share reserve	25,871,349	29,951,203
Life-claims reserve, net	1,907,245	1,286,041
<b>Life reserves</b>	<b>40,985,296</b>	<b>44,709,006</b>
Claims provision	69,143,302	85,151,027
Claims provision, reinsurers' share	(45,360,352)	(60,512,028)
	<b>23,782,950</b>	<b>24,638,999</b>
	<b>148,291,081</b>	<b>143,155,705</b>

# AKSİGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

#### NOTE 14 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 December 1999 there are certain transitional provisions relating to length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of TL 1,648,900,000 (31 December 2003: TL 1,485,430,000) for each year of service at 31 December 2003. The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

International Accounting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	2004	2003
Discount rate	5.45%	6%
Turnover rate to estimate the probability of retirement	97.5%	97.4%

The principal assumption is that the maximum liability of TL 1,648,900,000 for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

Movements in the provision for employment termination benefits during the year are as follows:

	2004	2003
Balance at 1 January	2,239,235	2,129,588
Paid during the period	(285,207)	(247,088)
Increase during the period	358,081	616,622
Monetary Gain	(275,564)	(259,888)
<b>Balance at 31 December</b>	<b>2,036,545</b>	<b>2,239,234</b>

#### NOTE 15 - SHARE CAPITAL

Nominal capital of the Company at 31 December 2004 is TL 153,000,000 million (31 December 2003: TL 153,000,000 million) and is held as follows:

	30 December 2004		31 December 2003	
	TL	%	TL	%
H. Ömer Sabancı Holding A.Ş.	87,818,033	57.4	87,818,033	57.4
Publicly traded	65,181,967	42.6	65,181,967	42.6
	<b>153,000,000</b>	<b>100</b>	<b>153,000,000</b>	<b>100</b>

At 31 December 2004, the restated capital of the Company amounts to TL 345,613,974 million (31 December 2003: TL 345,613,974 million).

# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 16 - SECURITY FOR POLICYHOLDERS

In order to protect the interests of policyholders, under Insurance Supervision Law 7397, insurance companies are obliged to deposit investments within two months in a blocked account with a state bank, and to mortgage fixed assets in favor of the Undersecretariat of Treasury.

Accordingly the following guarantees have been issued to the Undersecretariat of Treasury:

	2004	2003
Blocked investment securities	58,124,330	63,996,028
Blocked share certificates	12,387,305	11,920,868
Mortgage on buildings	26,359,118	22,596,055

### NOTE 17 - SUPPLEMENTARY CASH FLOW INFORMATION

	2004	2003
Net income/(loss)	63,396,928	108,939,843
<b>Adjustments for</b>		
Reserve for unearned premiums and deferred commission income	7,614,688	14,108,682
Change in provision for doubtful and overdue receivables	(6,587,838)	(3,648,559)
Depreciation and amortisation charges	2,643,275	1,477,001
Dividend income	(56,668,295)	(48,316,390)
Interest Income	(38,047,633)	(40,215,864)
Change in life reserves	(5,630,956)	5,260,579
Change in claims provision, net	1,051,198	11,189,825
Provision for employment termination benefits	(358,081)	(616,622)
Loss on disposal of property and equipment and intangible assets	(105,841)	-
Taxes on income	4,161,584	4,762,719
	<b>(28,530,971)</b>	<b>52,941,214</b>

#### **Changes in working capital:**

Premiums receivable and due from related parties	(3,022,471)	(20,989,718)
Other receivables and liabilities	(5,401,449)	2,938,820
Due from insurance and reinsurance companies and deposits with ceding and retroceding companies	(5,604,921)	-
Due to insurance and reinsurance companies and premium reserves	8,876,641	(5,587,667)
Inflation effect on operating activities	9,679,110	(49,251,416)

<b>Cash used in operations</b>	<b>(24,004,061)</b>	<b>(19,948,767)</b>
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# AKSIGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

**31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

### NOTE 18 - GENERAL AND ADMINSTRATIVE EXPENSES

	<b>2004</b>	<b>2003</b>
Personnel	17,622,446	14,878,346
Advertisement	4,171,002	1,934,956
Depreciation and amortisation	2,643,275	1,477,001
Postage	2,335,129	2,304,432
Information technology	1,902,940	1,827,927
Memberships	685,010	945,259
Maintenance and repairs	561,963	503,741
Rent Expense	501,899	723,653
Stationary	451,840	442,954
Utilities	451,255	504,928
Other	4,222,259	8,531,584
	<b>35,549,018</b>	<b>34,074,781</b>

### NOTE 19 - RELATED PARTY BALANCES AND TRANSACTIONS

Balances and transactions with related parties are as follows:

	<b>31 December 2004</b>	<b>31 December 2003</b>
<u>Bank deposits</u>		
Bank deposits and reverse repurchase transactions in Akbank branches	36,772,491	44,977,293
Akbank - mutual funds	25,017,824	23,676,275
	<b>61,790,315</b>	<b>68,653,568</b>

**AKSİGORTA A.Ş.****NOTES TO FINANCIAL STATEMENTS****31 DECEMBER 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

**NOTE 19 - RELATED PARTY BALANCES AND TRANSACTIONS (Continued)**

	<u>31 December 2004</u>		<u>31 December 2003</u>	
	<u>Due from</u>	<u>Due to</u>	<u>Due from</u>	<u>Due to</u>
Sabancı Üniversitesi	1,055,717	-	-	-
Philip Morris-SA	1,037,148	-	-	-
BNP-Ak Dresdner Finansal Kiralama	859,657	-	611,864	-
Akbank	637,521	-	855,006	-
Toyota Sabancı Otomotiv Sanayi				
Türkiye A.Ş. (Toyotasa)	402,477	-	233,958	-
Brisa Bridgestone Sabancı Lastik				
Sanayi ve Ticaret A.Ş. (Brisa)	268,089	-	180,866	-
Gıdasa Sabancı Gıda	226,265			
Temsa	219,092	-	108,411	-
Akçansa	174,834	-	-	-
Sasa Dupont Sabancı	159,540	-	-	-
Çimsa Çimento	134,203	-	-	-
Danonesa-Danone	114,812	-	-	-
Beksa	110,159	-	-	-
Sakosa Sabancı End. İplik ve Kord				
Bezi San. ve Tic. A.Ş. (Sakosa)	107,965	-	70,281	-
Carrefour-SA	92,254	-	-	-
H.Ö. Sabancı Holding A.Ş. (Holding)	91,528	-	128,705	-
Exsa Export San. A.Ş. (Exsa Export)	84,810	-	569	1,754
Marsa Krafıs Foods	81,455	-	-	-
Kordsa Kord Bezi Sanayi ve Ticaret A.Ş. (Kordsa)	78,285	-	27,016	-
Akkardan Sanayi	60,073	-	-	-
Dönkasan	45,992			
Ak Emeklilik A.Ş.	45,304	-	1,775	-
Olmuksa	35,542	-	-	-
Sabancı Telekom	28,121	-	-	-
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş. (Bossa)	20,809	-	34,145	-
Vista Seyahat A.Ş.	20,526	-	-	-
I-Bimsa	19,281	-	-	-
Dia-SA	10,925	-	-	-
Pilsa A.Ş.	-	4,419	-	-
Others	39,597	524	166,774	16,491
	<b>6,261,983</b>	<b>4,943</b>	<b>2,419,370</b>	<b>18,245</b>

# AKSİGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

#### NOTE 19 - RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

##### Written Premiums

	31 December 2004	31 December 2003
Sasa Dupont Sabancı	9,754,549	2,716,683
Brisa A.Ş.	6,085,770	1,935,907
Kordsa	3,047,089	718,992
Toyotasa	3,018,791	3,774,226
Bossa	2,893,231	905,053
Temsa	2,806,860	1,217,270
Akçansa	2,506,145	-
Carrefour-SA	2,470,090	-
Akbank	2,360,566	1,870,809
Çimsa Çimento	2,124,106	-
Enerjisa A.Ş.	2,052,286	1,512,903
Olmaksa	1,322,473	160,311
BNP-Ak Dresdner Finansal Kiralama	1,298,968	-
Exsa	1,140,975	-
Pilsa Plastik	1,119,284	-
H.Ö.Sabancı Holding	947,785	310,298
Beksa	831,302	-
Philsa	794,124	-
Yünsa	761,629	-
Teknosa	409,623	-
Ak Emeklilik A.Ş.	345,914	-
Marsa	334,590	241,504
DiaSA	318,418	-
Sabancı Üniversitesi	316,163	-
Insa	301,366	75,039
Tursa	270,790	-
Akkardansa	243,730	301,048
Gıdasa Sabancı Gıda	213,257	-
Oysa	212,627	95,863
Others	821,618	1,490,007
<b>Total</b>	<b>51,124,119</b>	<b>17,325,913</b>

# AKSİGORTA A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 31 December 2004)

#### NOTE 19 - RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

##### Rent expense

	31 December 2004	31 December 2003
Holding	9,855	165,197

##### Rent income

	31 December 2004	31 December 2003
Sabancı Üniversitesi	152,162	190,076
Ak Emeklilik	150,235	369,537
Holding	56,957	-
Brisa	15,336	-
Teknosa	13,035	-
Akbank	10,356	7,570
Other	30,266	-
	<b>428,347</b>	<b>567,183</b>

##### Interest income on time deposits and loan to banks

	31 December 2004	31 December 2003
Akbank	4,955,000	12,661,243

##### Dividend income

	31 December 2004	31 December 2003
Akbank	54,367,279	36,990,512
Akçansa	1,662,481	7,330,538
Çimsa	729,080	2,186,414
Akyatırım	3,614	3,462
BNP-AK-Dresdner	1,058	1,719
Dönkasan	49	-
Yünsa	-	297,841
Tursa	-	1,505,904
	<b>56,763,561</b>	<b>48,316,390</b>

##### Dividends paid

	31 December 2004	31 December 2003
Holding	18,405,395	8,821,081
Akbank Tekaüt Sandığı Vakfı	1,469,481	910,722
	<b>19,874,876</b>	<b>9,731,803</b>

## AKSIGORTA A.Ş.

### NOTES TO FINANCIAL STATEMENTS

#### 31 DECEMBER 2004

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 31 December 2004)

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#### NOTE 20 - SUBSEQUENT EVENT

The employment termination benefits ceiling has increased from TL 1,574,740,000 to TL 1,648,900,000 at 1 January 2005. This change increased provision for employment termination benefits by TL 85,581 million

Through the enactment of the Law numbered 5083 concerning the “Currency of the Republic of Turkey” in the Official Gazette dated 30 January 2004, New Turkish Lira (“YTL”) and the New Kuruş (“YKr”) have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The hundredth part of the YTL is the YKr. When the prior currency, Turkish Lira (“TL”), values are converted into the YTL, one million TL (TL1,000,000) shall be equivalent to one YTL (YTL1). Accordingly, currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL. All references made to Turkish Lira or Lira in laws, other legislation, administrative transactions, court decisions, legal transactions, negotiable instruments and other documents that produce legal effects as well as payment and exchange instruments shall be considered to have been made to YTL at the conversion rate indicated as above. Consequently, effective from 1 January 2005, the YTL replaces the TL as a unit of account in keeping and presenting the books, accounts and financial statements.

According to BOD resolution at 07.02.2005, İsmail Ragıp Yergin who is the managing director has been appointed to the General Manager position in lieu of Vahdet Tulun.

Haldun Soyer who was the Assistant General Manager resigned his managership at 09.02.2005.

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