

**Türk Demir Döküm Fabrikaları  
Anonim Şirketi**

**Consolidated Financial Statements  
Together With  
Report of Independent Auditors  
December 31, 2004**

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

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To the Board of Directors of  
Türk Demir Döküm Fabrikaları Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Türk Demir Döküm Fabrikaları Anonim Şirketi (Demir Döküm - a Turkish corporation) and its subsidiaries (hereafter together referred to as the Company) as of December 31, 2004 and the related consolidated income, changes in equity and cash flow statements for the year then ended, all expressed in the equivalent purchasing power of New Turkish Lira as of December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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.

As discussed in note 7, in the accompanying notes the Company has not reflected the fair value of investments available for sale in the accompanying consolidated financial statements and carried them at inflation adjusted cost as of December 31, 2004.

As of December 31, 2004, Chung Mei Industries Limited and Tianjin Demrad International Trading Company Limited of which the Company owns 45% and 60%, respectively are not consolidated as to equity pick-up method and consolidation method, respectively and carried at cost.

In our opinion, except for the possible effects that are stated in the third and fourth paragraphs above the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

February 25, 2005  
İstanbul, Turkey

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**CONSOLIDATED BALANCE SHEET**

**As at December 31, 2004**

**(Currency -- In New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)**

**ASSETS**

	Notes	2004	2003
<b>Current assets</b>			
Cash and cash equivalents	3	7,581,750	23,877,471
Trade and other receivables	4	202,782,346	142,795,857
Inventories	5	78,859,974	67,003,704
Prepayments and other current assets	6	5,371,808	7,270,123
<b>Total current assets</b>		<b>294,595,878</b>	<b>240,947,155</b>
<b>Non-current assets</b>			
Equity investments		2,402,240	2,402,240
Investments available for sale	7	16,551,776	16,661,775
Property, plant and equipment, net	8	57,453,925	59,126,406
Intangible assets, net	9	5,530,024	6,504,382
Deferred tax asset	13	2,903,136	2,721,155
Other non-current assets		202,932	202,932
<b>Total non-current assets</b>		<b>85,044,033</b>	<b>87,618,890</b>
<b>Total assets</b>		<b>379,639,911</b>	<b>328,566,045</b>

**LIABILITIES AND EQUITY**

	Notes	2004	2003
<b>Current liabilities</b>			
Trade and other payables	11	93,571,540	82,560,629
Short-term borrowings	10	86,609,274	70,785,710
Current portion of long-term borrowings	10	11,183,280	10,561,865
Income tax payable	13	1,184,618	2,897,214
Provisions	12	4,572,252	3,497,200
<b>Total current liabilities</b>		<b>197,120,964</b>	<b>170,302,618</b>
<b>Non-current liabilities</b>			
Long-term borrowings	10	29,373,819	30,176,653
Provisions	12	5,510,820	5,029,177
Deferred tax liability	13	517,083	2,073,512
<b>Total non-current liabilities</b>		<b>35,401,722</b>	<b>37,279,342</b>
<b>Total liabilities</b>		<b>232,522,686</b>	<b>207,581,960</b>
<b>Minority interest</b>	14	<b>2,283,730</b>	<b>3,162,893</b>
<b>Equity</b>			
Share capital issued	15	170,371,167	170,371,167
Capital surplus	16	887,540	887,540
Currency translation reserve		1,820,592	-
Legal reserves and accumulated deficit	17	(28,245,804)	(53,437,515)
<b>Total equity</b>		<b>144,833,495</b>	<b>117,821,192</b>
<b>Total liabilities and equity</b>		<b>379,639,911</b>	<b>328,566,045</b>

The accompanying policies and explanatory notes on pages 6 through 35 form an integral part of the consolidated financial statements.

## Türk Demir Döküm Fabrikaları Anonim Şirket

### CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2004

(Currency -- In New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

	Notes	2004	2003
Sales	22	508,111,983	356,623,872
Cost of sales		(357,951,211)	(250,314,749)
<b>Gross profit</b>		<b>150,160,772</b>	<b>106,309,123</b>
Distribution costs	22	(50,733,112)	(44,527,752)
Administrative expenses	22	(34,425,306)	(30,196,165)
Other operating income	22	3,746,781	7,451,191
Other operating expense	22	(2,721,898)	(5,851,099)
<b>Operating profit</b>		<b>66,027,237</b>	<b>33,185,298</b>
Financial expense, net	22	(26,188,710)	(7,283,636)
Loss on net monetary position		(6,895,105)	(200,786)
<b>Profit before tax</b>		<b>32,943,422</b>	<b>25,700,876</b>
Taxation charge	13		
Current		(10,188,006)	(10,543,223)
Deferred		1,752,970	1,812,894
<b>Total taxation charge</b>		<b>(8,435,036)</b>	<b>(8,730,329)</b>
<b>Profit after tax</b>		<b>24,508,386</b>	<b>16,970,547</b>
Minority interest	14	568,127	1,771,010
<b>Net profit</b>		<b>25,076,513</b>	<b>18,741,557</b>
Weighted average number of shares		45,000,000,000	34,583,333,000
Basic/diluted earnings per share (YTL) (Note 18)		0.00056	0.00054

The accompanying policies and explanatory notes on pages 6 through 35 form an integral part of the financial statements.

**Türk Demir Döküm Fabrikaları Anonim Şirket****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY****For the year ended December 31, 2004****(Currency -- In New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)**

	Share Capital	Legal Reserves and Accumulated Deficit	Capital Surplus	Currency Translation Reserve	Total Equity
Balances at January 1, 2003	168,059,707	(59,899,457)	887,540	-	109,047,790
Share capital increase from accumulated profits	2,311,460	(2,311,460)	-	-	-
Effect of restructuring (Note 2)	-	(7,659,994)	-	-	(7,659,994)
Dividend paid	-	(2,308,161)	-	-	(2,308,161)
Net profit for the year	-	18,741,557	-	-	18,741,557
<b>Balances at December 31, 2003</b>	<b>170,371,167</b>	<b>(53,437,515)</b>	<b>887,540</b>	<b>-</b>	<b>117,821,192</b>
Increase in currency translation reserves	-	115,198	-	1,820,592	1,935,790
Net profit for the year	-	25,076,513	-	-	25,076,513
<b>Balance as of December 31, 2004</b>	<b>170,371,167</b>	<b>(28,245,804)</b>	<b>887,540</b>	<b>1,820,592</b>	<b>144,833,495</b>

The accompanying policies and explanatory notes on pages 6 through 35 form an integral part of the financial statements.

## Türk Demir Döküm Fabrikaları Anonim Şirketi

### CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2004

(Currency -- In New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

	2004	2003
<b>Cash flows from operating activities</b>		
Profit before income tax	33,511,549	27,471,886
Adjustments to reconcile net income / (loss) to net cash flows from operating activities:		
Depreciation and amortization	13,105,597	16,574,145
Provision for employee termination benefits (long-term provisions)	1,093,061	831,134
Employee termination benefits paid	(855,763)	(1,221,635)
Interest expense	23,799,219	21,889,738
Provision for warranty expense	2,100,332	1,673,704
Fixed asset sales income	(67,449)	-
Increase in currency translation reserves	3,197,370	-
Provision for impairment in investments available-for-sale	-	659,974
<b>Net profit adjusted for non-cash items</b>	<b>75,883,916</b>	<b>67,878,946</b>
<b>Changes in operating assets and liabilities:</b>		
Trade and other receivables	(81,059,417)	(47,610,464)
Inventories	(11,856,270)	(31,753,922)
Prepayments and other current assets	1,063,150	(3,795,450)
Trade and other payables	11,010,912	34,254,500
Income taxes paid	(12,101,673)	(15,111,353)
Warranty expense utilized	(6,638,470)	(9,374,648)
<b>Net cash used in operating activities</b>	<b>(23,697,852)</b>	<b>(5,512,391)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(11,370,014)	(15,185,722)
Purchase of intangible assets	(103,536)	(3,231)
Increase in investments in subsidiaries	-	(641,905)
Increase in other non-current assets	-	(202,932)
Goodwill	-	(5,922,995)
Cash received from sale of investments available for sale	109,999	(1,529,154)
Decrease in minority interest	(568,127)	(16,525,028)
Dividends paid	-	(2,308,161)
Effect of restructuring	-	(7,659,994)
Cash received from sale of property, plant and equipment	485,966	2,847,899
<b>Net cash used in investing activities</b>	<b>(11,445,712)</b>	<b>(47,131,223)</b>
<b>Cash flows from financing activities:</b>		
Repayment of short-term borrowings	(235,377,629)	(43,693,729)
Proceeds from long-term borrowings	12,787,600	27,347,916
Proceeds from short-term borrowings	251,403,769	83,678,563
Interest payments	(24,226,010)	(19,857,732)
<b>Net cash used in financing activities</b>	<b>4,587,730</b>	<b>47,475,018</b>
<b>Net monetary gain / (loss) on restatement of cash transactions</b>	<b>14,260,113</b>	<b>15,839,796</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(16,295,721)</b>	<b>10,671,200</b>
Cash and cash equivalents at beginning of year	23,877,471	13,206,271
<b>Cash and cash equivalents at end of year</b>	<b>7,581,750</b>	<b>23,877,471</b>
<b>Supplemental disclosure of cash flows information:</b>		
Cash received by the Company for interest	81,433	115,188
Dividend income received	615,989	-

The accompanying policies and explanatory notes on pages 6 through 35 form an integral part of the financial statements.

# Türk Demir Döküm Fabrikaları Anonim Şirket

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

### 1. CORPORATE INFORMATION

#### General

Türk Demir Döküm Fabrikaları Anonim Şirketi (Demir Döküm) was founded in 1954. 20% of the shares of Demir Döküm are listed on the Istanbul Stock Exchange. The address of the registered office of the Company is Kurtköy-Orhanlı Caddesi Mezarlık yanı Pendik, İstanbul. Headquarters of the Company are located in İnegöl. The production facilities of Demir Döküm are located in Bozüyük and İnegöl.

As of November 22, 2001, Demir Döküm spun off its panel radiator production facilities that were located in Bozüyük and established Panel Radyatör Sanayi ve Ticaret A.Ş. (Panel) to carry on the production activities of panel radiators. Demir Döküm sold 50% of Panel to a group company, Beko UK, at an amount of U.S. Dollars 10,109,080 on December 28, 2001.

On January 1, 2003 the division of Beko UK which specialised in the sales and servicing of radiators was sold to DD Heating Limited (DD Heating) in which the Company owns 50%. 'Heatline' is the radiator operation sold and although the heatline radiator business dates back to 1980's it was properly established in 1990 and has become one of the fastest growing brands in the heating market. On May 1, 2003, the German heatline division of Beko was also transferred to DD Heating.

DD Heating has purchased the 50% of Panel shares from Beko UK funded by a loan obtained on May 1, 2003 at an amount of 9,700,000 GBP at 5%(Libor+1,25%) repayable by February 2008.

As of July 25, 2002, the Company also spun off its cast iron radiator production facilities that were located in İnegöl and established Demrad Döküm Ürünleri Sınai ve Ticaret Anonim Şirketi (Demrad) to carry on the production activities of cast iron radiator. The establishment has been realized through the transfer of the fixed assets of Demirdöküm to Demrad as capital in-kind. The Company owns 99.9% of Demrad.

According to the Resolution dated July 24, 2002, the Company has decided to separate its oiled radiator production facilities and establish a joint venture with 45% of Demir Döküm, 10% of Ram Pacific Ltd., and 45% Chung Mei Industries Limited (a Chinese Corporation) participation of under the name of Chung Mei Industries Limited (Chung Mei). The new establishment will sell products under the brand name of Doka. The establishment is realized through the transfer of the fixed assets of the radiator production facility with the historical cost value of TL 89,289. The property, plant and equipment, is used as capital in-kind. The establishment has been realized and as of March 5, 2004 Chung Mei has started its operations in China. As of December 31, 2004, the total assets in Chung Mei's non-audited financial statements is USD 1,736,581, total equity is USD 1,497,193 and net loss for the period is USD 36,486. Chung Mei has not been consolidated as to equity pick-up method to the consolidated financials of Demir Döküm due to the fact that the operations of Chung Mei has just based on sample production as of the date of this report and carried at cost in equity investments.

According to the resolution dated May 14, 2003, Demirdöküm has decided to operate its selling, marketing and warehousing facilities in China Tianjin Free Trade Zone. For its operations, Demir Döküm participated in Tianjin Demrad International Trading Company Limited (Demiladi) which has a share capital of U.S. Dollar 200,000, with 60% participating share. Since the subsidiary's consolidated financial statements prepared in accordance with IFRS could not be obtained as of December 31, 2004, it has not been consolidated as of December 31, 2004, and carried at cost.

The consolidated financial statements are authorized for issue by the management on February 25, 2005. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The parent of Demir Döküm is Koç Holding A.Ş.

For the purpose of these consolidated financial statements, Demir Döküm and its consolidated subsidiaries, Panel, Demrad and DD Heating are referred to as "the Company and its subsidiaries or the Company".

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Nature of Activities**

The Company is engaged in the manufacture and trade of durable consumer goods such as iron panel and steel radiators, cast iron radiators, instant and storage water heaters, central heating systems, iron stoves, individual heating equipment.

##### **Basis of Preparation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee Interpretations approved by the International Accounting Standards Committee that remain in effect. The consolidated financial statements have been prepared on an historical cost convention, except for the measurement at fair value of available-for-sale financial assets.

The Company has not adopted the changes in IFRS as of December 31, 2004 which will take effect starting from January 1, 2005.

Demir Döküm and its subsidiaries, which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements in accordance with regulations on accounting and reporting framework and accounting standards promulgated by the Turkish Capital Market Board (TCMB - only for Demir Döküm), Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiary maintains its books of accounts in accordance with the laws and regulations in force in the country where it is registered. The consolidated financial statements have been prepared from statutory financial statements of Demir Döküm and its subsidiaries and presented in New Turkish Lira (YTL) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

##### **Reclassifications on 2003 Financials**

Certain reclassifications have been made in the consolidated financial statements as of December 31, 2003 to be consistent with the current year presentation. These reclassifications include short-term borrowings amounting to YTL 1,691,624 to be classified from trade payables to short-term borrowings, to gross-up deferred tax liability netted of from deferred tax asset amounting to YTL 2,073,512 to gross-up factored export receivables amounting to YTL 3,680,538 to gross-up factored checks and notes receivable amounting to YTL 23,827,899, other financial liabilities in the amount of YTL 15,730,090 to be classified from trade payables to short-term borrowings and current portion of long-term borrowings amounting to YTL 2,371,869 to be classified from long-term borrowings to current portion of long-term borrowings, and the forward income in the other operating income amounting to YTL 724,224 to be reclassified to financial income.

##### **Measurement Currency, Reporting Currency and Translation Methodology**

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressed and recording transactions. A new law was enacted on January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL) the new currency unit for the Republic of Turkey. Conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 through out the period until complete phase-out TL.

Accordingly, the Company's functional and presentation currency as of December 31, 2004 is YTL and comparative figures for the prior year(s) have also been presented in YTL, using the conversion rate of TL 1,000,000/YTL=1,00.

## Türk Demir Döküm Fabrikaları Anonim Şirketi

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement currency of Demir Döküm and its subsidiaries which operate in Turkey is YTL. Measurement currency of DD Heating which operates in Great Britain is Great Britain Pound and related financial statements are converted into YTL using the exchange rate at the date of the balance sheet. As of December 31, 2004, 1 Great Britain Pound = 2.5765 YTL – with the average rate, Great Britain Pound = 2.60177). The restatement for the changes in the general purchasing power of YTL as of December 31, 2004 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of December 31, 2004, the three year cumulative rate has been 69% (2003 - 181%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three year period are given below:

Dates	Index	Conversion Factors
December 31, 2001	4,951.7	1.6972
December 31, 2002	6,478.8	1.2971
December 31, 2003	7,382.1	1.1384
December 31, 2004	8,403.8	1.0000

The main guidelines for the restatement are as follows :

- the consolidated financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2004.
- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2004 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property, transferred to share capital from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity (except for the statutory revaluation adjustment which is eliminated) are restated by applying the relevant conversion factors.
- the effect of general inflation on the net monetary position is included in the income statement as monetary gain / (loss).
- all items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortisation, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortisation).

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Company could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Company could return or settle the same values of equity to its shareholders.

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31 each year.

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

The consolidated financial statement include Demir Döküm and its subsidiaries, which it controls. This control is normally evidenced when Demir Döküm owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Although the Company owns 60% of Demiladi, due to the fact that the financial statements of Demiladi prepared in accordance with IFRS could not be obtained, Demiladi has not been consolidated and stated at cost.

As of December 31, 2004, Chung Mei Industries Ltd, in which the Company has 45% ownership percentage, has not been consolidated according to equity pick-up method to the consolidated financial statements, due to the fact that the operations of Chung Mei just based on sample production.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

As of December 31, 2004 and 2003, consolidated financial statements include the accounts of Demrad, Panel and DD Heating in which the Company has an interest of 99.9%, 50.00 % and 50.00% respectively.

Panel (registered in İstanbul) is engaged in production of panel radiators. Panel is established at November 22, 2001 and started its operations at December 24, 2001.

Demrad (registered in İstanbul) is engaged in production of cast iron radiator. Demrad is established at July 25, 2002.

DD Heating (registered in Bedford,UK) is engaged in trading of panel radiators, cast-iron radiators, combi boilers and towel radiators. DD Heating is established on January 1, 2003.

On January 1, 2003 DD Heating acquired Beko UK shares in Panel which constitute 50% of share capital of Panel. Since Demir Döküm owns 50% of DD Heating, the ownership percentage increased from 50% to 75% in DD Heating. As DD Heating and Panel are under the common control of Demir Döküm, and accordingly, DD Heating and Beko UK are under common control of Koç Holding, the excess of purchase price over the carrying value of the net assets acquired was recorded as a decrease in the equity in the consolidated financial statements. During the consolidation process all significant intercompany transactions and balances are eliminated.

##### **Cash and Cash Equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, cash in banks, checks readily convertible to known amounts of cash and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents are carried at cost plus its interest income accrual.

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Trade and Other Receivables**

Trade receivables which generally have 30-120 day terms, are recognized at original invoice amount less for an allowance for any uncollectible amounts and an for unearned interest income.

Notes and post-dated checks which are classified within trade receivables are held to maturity and are measured at amortized cost using the effective interest rate method.

The allowance for doubtful receivables is established through a provision charged to expenses. The allowance is an estimated amount that management believes to be adequate to absorb possible future losses on existing receivables that may become uncollectible due to current economic conditions and inherent risks in the receivables.

##### **Inventories**

Inventories are valued at the lower of cost and net realizable value.

Cost incurred in bringing each product to its present location and condition are accounted as follows :

Raw materials - restated cost eliminated of imputed interest on a weighted average basis;

Finished goods and work-in progress-cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity and average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

##### **Equity Investments**

As of December 31, 2004, the equity investments of the Company, are comprised of Chung Mei and Kumsan Döküm Malzemeleri Sanayi ve Ticaret A.Ş. in which the participation of the Company is 45% and 25.14%, respectively, are carried at cost.

##### **Investments Available for Sale**

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments which are classified as "available-for-sale" are measured at fair value unless fair value cannot be reliably measured.

For investments where there is no quoted market price and where a reasonable estimate of the fair value could not be determined since other methods are inappropriate and unworkable, they are stated at cost.

##### **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Property, Plant and Equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of related asset:

Land improvements	25 yıl
Buildings	25 yıl
Furnitures and fixtures	5 yıl
Machinery, installations and equipment	3-10 yıl
Moulds and models	2-4 yıl
Vehicles	3-4 yıl
Leasehold improvements	5 yıl

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

##### **Goodwill and Intangible Assets**

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of subsidiaries and associates at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over the estimate of their useful lives, which is 5 years.

The carrying values of goodwill and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

##### **Foreign Currency Transactions**

Transactions in foreign currencies are recorded as YTL, at the rate ruling at the date of transaction. Balance sheet items denominated in foreign currencies have been translated at the rates of exchange prevailing at the balance sheet dates. Exchange gains or losses arising on settlement and translation of foreign currency items have been included in the related income or expense accounts as appropriate.

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Bank Borrowings**

All borrowings are initially recognized at cost, being the fair value of the consideration received net of issue cost associated with the borrowing.

After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gain or losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

##### **Trade and Other Payables**

Liabilities for trade and other amounts which are normally settled up to 135 day terms are carried at amortized cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Post-dated checks given which are classified within trade payables are measured at amortized cost.

##### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

##### **Income Tax**

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### **2. UYGULANAN BELLİ BAŞLI MUHASEBE PRENSİPLERİNİN ÖZETİ (devamı)**

##### **Retirement Pay Liability**

###### **(a) Defined Benefit Plans :**

In accordance with existing social legislation, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Full provision is made for the present value of the defined benefit obligation calculated using the Projected Unit Credit Method. All actuarial gains and losses are recognized in the income statement.

###### **(b) Defined Contribution Plans :**

The Company pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

In the consolidated balance sheets, retirement pay liabilities are shown as a separate item within the long-term payables.

##### **Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are stated net of discounts, value added and sales taxes. The following specific recognition criteria must also be met before revenue is recognized :

###### *Sales of Goods*

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer at the invoiced values and the amount of revenue can be measured reliably. Net sales represent the invoiced value of goods shipped net of sales discounts and commission.

###### *Rendering of Services*

Revenue from rendering services is recognized by reference to the stage of completion when it can be measured reliably. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

###### *Interest*

Revenue is recognized as the interest accrues unless collectibility is in doubt.

###### *Dividends*

Revenue is recognized when the Company receives the payment.

##### **Borrowings Costs**

Borrowing costs are expensed as incurred.

## **Türk Demir Döküm Fabrikaları Anonim Şirketi**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

(Currency -- Unless otherwise indicated, in New Turkish Lira (YTL) in equivalent purchasing power at December 31, 2004)

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Uses of Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported on the financial statements and notes. Actual results could differ from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

##### **Earnings Per Share**

For the purpose of these financial statements, earnings per share is calculated by dividing net profit by the weighted average number of shares that have been outstanding during the year. The weighted average number of shares outstanding during the year has been adjusted in respect of free shares issued without corresponding increase in resources. However, for statutory purposes, earnings per share calculation is subject to the requirements of local regulations and laws.

##### **Trade and Settlement Date Accounting**

All "regular way" purchases and sales of financial assets are recognized on the trade date, in other words, the date the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

##### **Recognition and Derecognition of Financial Instruments**

The Company recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion financial asset. The Company derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

##### **Derivative Financial Instruments (Forward Agreements)**

The Company enters into transactions with derivative instruments, including forwards, in the foreign exchange markets. These derivative transactions are considered as effective economic hedges under the Company's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value.

Fair values are obtained from quoted market prices, to the extent publicly available and discounted cash flows as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Derivatives with unrealised gains are included in accrued income (prepayments and other current assets) and derivatives with unrealised losses are included in accrued expense in the consolidated balance sheet.

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 3. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	6,168	3,671
Bank accounts (including short-term time deposits)	5,529,931	19,716,756
Checks and notes readily convertible to cash	2,045,651	4,157,044
	<b>7,581,750</b>	<b>23,877,471</b>

As of December 31, 2004, the Company does not have any time deposits at banks.

As of December 31, 2003, YTL 4,325,920 of cash and cash equivalents represent the time deposit with maturity date, January 2, 2004 bearing an interest rate of 25.5% per annum and GBP 688,000 represent the time deposit with maturity date January 2, 2004 bearing an interest rate of 1.99% and EUR 772,000 represent the time deposit with maturity date January 2, 2004 bearing an interest rate of 1.09 % per annum.

The breakdown of cash and cash equivalents in YTL as to currency of denomination is as follows :

	2004	2003
EURO	2,857,404	10,883,755
GBP	1,193,902	2,441,865
USD	455,391	1,443,286

#### 4. TRADE AND OTHER RECEIVABLES

	2004	2003
Accounts receivable	83,583,808	72,399,240
Notes receivable and post-dated checks	120,038,711	70,557,009
Due from related parties	5,495,956	7,584,749
Others	74,032	114,771
	<b>209,192,507</b>	<b>150,655,769</b>
Less: Allowance for unearned interest income	(2,154,733)	(3,931,159)
Less: Allowance for doubtful receivables	(4,255,428)	(3,928,753)
	<b>202,782,346</b>	<b>142,795,857</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 4. TRADE AND OTHER RECEIVABLES (continued)

YTL equivalents of foreign currency denominated items, reflected in the equivalent purchasing power of YTL at December 31, 2004 and 2003, are as follows :

Accounts receivables	2004	2003
EURO	18,218,198	16,123,294
GBP	9,608,281	20,249,996
USD	5,224,126	4,450,758
<hr/>		
Notes Receivables and post-dated checks		
USD	538,457	82,425
EURO	6,516	68,338

As of December 31, 2004, the receivables from the export sales of the Company have been factored to a factoring company which is also a related party amounting to USD 908,571, EURO 4,941,065, GBP 4,232,269 (2003 – USD 616,395, EURO 4,046,909, GBP 3,685,790).

YTL equivalents of foreign currency denominated items, reflected in the equivalent purchasing power of YTL at December 31, 2004 and 2003 for due from related parties are disclosed in Note 19.

#### 5. INVENTORIES

	2004	2003
Finished goods	13,205,850	12,488,462
Work-in-process	3,697,162	2,760,916
Raw materials	30,159,290	21,286,984
Merchandise	16,406,379	20,848,551
Semi-finished goods	6,069,012	4,667,015
Goods in transit	5,394,878	2,467,621
Advances for purchase orders	3,927,403	2,484,155
	<hr/>	<hr/>
	78,859,974	67,003,704

#### 6. PREPAYMENTS AND OTHER CURRENT ASSETS

	2004	2003
VAT receivable	3,092,930	4,949,754
Prepaid tax	814,072	-
Advances to vendors	956,115	1,052,478
Prepaid expenses	428,845	678,080
VAT deductible	7,546	320,573
Others	72,300	269,238
	<hr/>	<hr/>
	5,371,808	7,270,123

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2004 (Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 7. INVESTMENTS AVAILABLE FOR SALE

As of December 31, 2004 and 2003, investments available for sale are comprised of:

	2004		2003	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Koç Finansal Hizmetler A.Ş.	0.38%	6,439,535	0.38%	6,439,535
Ram Dış Ticaret A.Ş.	10.00%	5,733,890	10.00%	5,733,890
Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş. (Entek)	3.92%	5,375,226	3.92%	5,375,226
Isı Sanayii Araştırma ve Geliştirme A.Ş.	5.00%	8,217	5.00%	8,217
Garanti Balfour Beatty İnş. San. ve Tic. A.Ş. (GBB)	-	-	7.92%	641,905
		<b>17,556,868</b>		<b>18,198,773</b>
Less : Provision for impairment (KFSH, GBB)		<b>(1,005,092)</b>		<b>(1,536,998)</b>
		<b>16,551,776</b>		<b>16,661,775</b>

As of December 31, 2004, the investments in the above companies are carried at restated cost since their fair value could not be measured reliably.

**Türk Demir Döküm Fabrikaları Anonim Şirket**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

**(Currency -- YTL in equivalent purchasing power at December 31, 2004)**

**8. PROPERTY, PLANT AND EQUIPMENT**

	December 31, 2003	Currency Translation Reserves	Additions	Transfers	Restatement Effect of Fully Depreciated Items	Disposals	December 31, 2004
<b>Cost</b>							
Land and land improvements	3,428,146	-	-	-	(47,265)	-	3,380,881
Buildings	46,384,495	-	130,047	746,614	(471,309)	(105,533)	46,684,314
Machinery, installations and equipment	150,055,046	(37,990)	3,924,689	4,340,421	(8,985,521)	(265,570)	149,031,075
Motor vehicles	1,646,385	(54,667)	435,768	-	(9,703)	(387,004)	1,630,779
Furniture and fixtures	8,270,518	(44,799)	627,073	349,322	(650,835)	(67,620)	8,483,659
Leasehold improvements	175,612	-	-	-	(21,350)	-	154,262
Construction in progress	1,459,768	-	6,252,437	(5,436,357)	-	-	2,275,848
<b>Total</b>	<b>211,419,970</b>	<b>(137,456)</b>	<b>11,370,014</b>	<b>-</b>	<b>(10,185,983)</b>	<b>(825,727)</b>	<b>211,640,818</b>
Less: Accumulated Depreciation							
Land and land improvements	1,728,226	-	85,656	-	(47,265)	-	1,766,617
Buildings	25,373,666	-	1,713,739	-	(471,309)	(7,586)	26,608,510
Machinery, installations and equipment	117,901,069	(8,416)	9,694,640	-	(8,985,521)	(253,773)	118,347,999
Motor vehicles	434,993	(9,294)	420,158	-	(9,703)	(132,327)	703,827
Furniture and fixtures	6,679,998	(10,264)	600,303	-	(650,835)	(13,524)	6,605,678
Leasehold improvements	175,612	-	-	-	(21,350)	-	154,262
<b>Total</b>	<b>152,293,564</b>	<b>(27,974)</b>	<b>12,514,496</b>	<b>-</b>	<b>(10,185,983)</b>	<b>(407,210)</b>	<b>154,186,893</b>
<b>Property, Plant and Equipment, net</b>	<b>59,126,406</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,453,925</b>

	2004	2003
The gross carrying amount of any fully depreciated property, plant and equipment that is still in use	101,697,075	67,118,244

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2004 (Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 9. INTANGIBLE ASSETS

	January 1, 2004	Additions/ Charge	Restatement effect of Fully Amortized Items	Currency translation reserves	December 31, 2004
<b>Cost</b>					
Rights and Other Intangibles	1,873,751	103,536	(230,633)	-	1,746,654
Goodwill	5,922,995	-	-	(512,345)	5,410,650
<b>Less : Accumulated Amortization</b>					
Rights and Other Intangibles	(995,755)	(321,094)	230,633	-	(1,086,216)
Amortization of goodwill	(296,609)	(270,007)	-	25,552	(541,064)
<b>Net carrying amount</b>	<b>6,504,382</b>				<b>5,530,024</b>

As of December 31, 2004, goodwill arising from the purchase of "Heatline" business of Beko is amortized over 20 years in the consolidated financial statements.

**Türk Demir Döküm Fabrikaları Anonim Şirket**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

**(Currency -- YTL in equivalent purchasing power at December 31, 2004)**

**10. BORROWINGS**

	2004				2003			
	Min-Max	Foreign	Maturity	YTL	Min-Max	Foreign	Maturity	YTL
	Interest Rate %	Currency		Amount	Interest Rate %	Currency		Amount
<b>Short Term</b>								
<b>Export Loans</b>								
U.S. Dollars	-	-	-	-	3.98%	-	January 5, 2004	4,914,096
YTL	17%-21%	-	January 3, 2005 – June 27, 2005	11,502,226	26%-47%	3,092,535	January 5, 2004 – June 14, 2004	11,442,469
<b>Prefinance Loans</b>								
YTL	20.25%	-	-	4,175,000	27.25%	-	-	4,587,989
YTL	-	-	-	615,000	-	-	-	-
British Sterling	-	-	-	-	-	600,000	July 1, 2004	1,691,624
<b>Working capital loans</b>								
EURO	-	276,018	-	504,229	-	-	-	-
YTL	-	-	-	62,017	-	-	-	-
<b>Bank overdrafts</b>								
British Sterling	-	1,071,011	-	2,759,459	-	-	-	-
YTL	-	-	-	1,156,116	-	-	-	773,823
<b>Other Short-term debt</b>								
YTL	23.50%-25.35%	-	-	41,316,661	28.40%	-	-	27,965,081
U.S. Dollars	4.70%	913,690	-	1,226,263	-	4,046,909	-	979,463
EURO	4.75%	6,743,923	-	12,319,799	-	616,395	-	8,039,549
British Sterling	6.95%	4,258,686	-	10,972,504	-	3,685,790	-	10,391,616
				<b>86,609,274</b>				<b>70,785,710</b>
<b>Current portion of long term borrowings</b>				<b>11,183,280</b>				<b>10,561,865</b>
				<b>97,792,554</b>				<b>81,347,575</b>
<b>Long Term</b>								
U.S. Dollars	5.5%	3,075,625	July, 5 2005	4,127,797	3.88%-5.45%	8,214,296	March 19, 2004 – July 21, 2005	13,052,669
EURO	Libor+1.6	7,097,995	January 20, 2006	12,966,617	-	-	-	-
British Sterling	6.15%	9,106,418	April 30, 2008	23,462,685	5%	9,818,861	April 30, 2008	27,685,849
<b>Current portion of long-term borrowings</b>				<b>(11,183,280)</b>				<b>(10,561,865)</b>
				<b>29,373,819</b>				<b>30,176,653</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 10. BORROWINGS (continued)

As of December 31, 2004 and 2003, intercompany balances in the short-term and long-term borrowings are as follows:

	2004	2003
<b>Short-Term Loans</b>		
<b>Koç Faktoring</b>		
YTL	41,316,661	27,965,081
British Pound	10,972,504	10,391,616
Euro	9,191,903	8,039,549
USD	1,226,263	979,463
<b>Arçelik</b>		
Euro	3,127,896	-
<b>Beko</b>		
British Pound	-	1,691,624
<b>Koçbank</b>		
YTL	4,790,000	-
<b>Long Term Loans</b>		
<b>Beko</b>		
British Pound	23,462,685	27,685,849

The repayment plan of the long-term borrowings as of December 31, 2004 and 2003 , is as follows :

Year	2004	2003
2004	-	10,561,865
2005	11,183,280	12,026,941
2006	19,422,088	7,259,885
2007	6,634,488	7,259,885
2008	3,317,243	3,629,942
	40,557,099	40,738,518
<b>Less : Current portion of long-term debt</b>	<b>(11,183,280)</b>	<b>(10,561,865)</b>
	<b>29,373,819</b>	<b>30,176,653</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 11. TRADE AND OTHER PAYABLES

	2004	2003
Notes payables	43,817,821	31,793,619
Trade payables	27,542,723	29,931,642
Due to related parties	15,058,649	14,034,994
Advances received from customers	3,149,042	3,275,820
Due to employees	2,568,255	2,145,055
Other taxes and withholdings	2,427,991	960,329
Value added tax	879,873	382,518
Due to shareholders	616,995	270,281
Tax amnesty accrual	-	154,797
Forward expense accrual	418,044	-
Miscellaneous expenses	79,285	73,934
	<b>96,558,678</b>	<b>83,022,989</b>
Less : Allowance for unincurred interest expense	<b>(2,987,138)</b>	<b>(462,360)</b>
	<b>93,571,740</b>	<b>82,560,629</b>

YTL equivalents of foreign currency denominated items, reflected in the equivalent purchasing power of YTL at December 31, 2004 and 2003, are as follows :

	2004	2003
USD	7,493,888	4,661,325
British Pound	4,495,738	7,474,994
EURO	618,417	5,724,066
CHF	-	3,913

#### 12. PROVISIONS

Current:	Warranty (*)	Litigation (Note 21)	Total
<b>At January 1, 2004</b>	<b>3,274,135</b>	<b>223,065</b>	<b>3,497,200</b>
Charge for the year	2,100,332	-	2,100,332
Utilized/paid	(6,638,470)	-	(6,638,470)
Monetary gain (loss)	5,640,309	(27,119)	5,613,190
	<b>4,376,306</b>	<b>195,946</b>	<b>4,572,252</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 12. PROVISIONS (continued)

Non - Current:	Employee Termination Benefits (**)
At January 1, 2004	5,029,177
Charge for the year	1,093,061
Utilized/paid	(855,763)
Monetary gain (loss)	244,345
December 31, 2004	5,510,820

#### (\* ) Maintenance warranties

Provisions are made by considering returns and maintenance taking place in the previous years. The majority of this cost is expected to take place two years after the balance sheet date in the next financial year.

(\*\*) In accordance with existing social legislation, the Company and its subsidiaries incorporated in Turkey is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of historical YTL 1,575 (2003 – 1,581 YTL) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as of December 31, 2004 and December 31, 2003, the Company and its subsidiaries reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The principal actuarial assumptions used at the balance sheet dates are as follows :

	2004	2003
Discount rate	%16	%25
Expected rates of salary/limit increases	%10	%18

#### 13. INCOME TAXES

##### General Information

The Company is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, the corporation tax rate for the fiscal year ended December 31, 2004 is 33% (2003-30%). Effective January 1, 2005, the corporate tax rate will be 30%. Corporate tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month. The tax legislation provides for a temporary tax of 33% (2003-30%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 13. INCOME TAXES (continued)

In 2003 and prior years, corporation tax was computed on the statutory income tax base without any adjustment for inflation accounting. Starting from January 1, 2004, taxable income is from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet will not be subject to corporation tax, and similarly accumulated deficits arising from such application will not be deductible for tax purposes. Moreover, accumulated tax loss carry-forwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. A tax amnesty law, which was enacted in 2003 provided immunity for tax inspection and additional assessments to those taxpayers who utilized the option. According to the law, companies, who accepted to use this option, also accepted a 50% reduction from their corporate tax losses incurred in the same year.

Effective from April 24, 2003, investment allowances provides a deduction from the corporate tax base of 40% of the purchase price of purchases of the brand-new fixed assets having economic useful life and exceeding YTL6,000 and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at companies' will. All investment allowances can be carried forward indefinitely.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

10% withholding applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distributions by resident corporations to resident corporations are not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Capital gains derived from cash sales of participation shares that have been held for at least two years are exempt from corporation tax if the gains are added to share capital. Furthermore, in the event the profit arising from the dividend receipt is not distributed or included in capital, no withholding tax shall be applicable.

Major components of income tax expense for the years ended December 31, are :

	2004	2003
<b>Consolidated income statement</b>		
Current income tax	(10,188,006)	(10,543,223)
Deferred tax	1,752,970	1,812,894
<b>Income tax expense reported in consolidated income statement</b>	<b>(8,435,036)</b>	<b>(8,730,329)</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 13. INCOME TAXES (continued)

A reconciliation of income tax expense applicable to "statutory" profit before income tax at the statutory income tax rate to income tax expense reported in the income statements at the Company's effective income tax rate for the years ended December 31 was as follows :

	2004	2003
Income before tax and minority interests	33,511,549	27,471,886
At Turkish statutory income tax rate of 33% (2003 - 30%)	(11,058,811)	(8,241,566)
Tax exempt items	1,296,058	3,178,080
Disallowables	(809,523)	(1,834,362)
Effect of change in tax rate	179,797	-
Other	1,957,443	(1,832,481)
	<b>(8,435,036)</b>	<b>(8,730,329)</b>

#### Deferred tax

Deferred tax in the consolidated financial statements as of December 31, 2004 and 2003 is the following:

	2004	2003
Deferred tax assets	2,903,136	2,721,155
Deferred tax liabilities	(517,083)	(2,073,512)
Deferred tax assets, net	<b>2,386,053</b>	<b>647,643</b>

The analysis of deferred tax as of December 31 is as below:

	2004		2003	
	Cumulative Temporary Differences	Liability	Cumulative Temporary Differences	Liability
<b>Deferred tax liabilities</b>				
Restatement difference on property, plant and equipment	(2,070,113)	(621,034)	(5,853,563)	(1,170,711)
Allowance for unearned interest income	(8,964,761)	(2,689,428)	(462,361)	(92,472)
Gross deferred income tax liabilities	<b>(11,034,874)</b>	<b>(3,310,462)</b>	<b>(6,315,924)</b>	<b>(1,263,183)</b>

	2004		2003	
	Cumulative Temporary Differences	Asset	Cumulative Temporary Differences	Asset
<b>Deferred tax assets</b>				
Tax losses carried forward	-	-	395,857	118,759
Provision for employee termination benefits	5,510,820	1,653,246	5,029,177	1,005,836
Allowance for unincurred interest expense	8,132,356	2,439,707	3,931,159	786,231
Restatement difference on inventories	308,602	92,580	-	-
Provisions	4,485,267	1,345,580	-	-
Forward expense accrual	418,044	125,413	-	-
Others	133,297	39,989	-	-
Gross deferred tax assets	<b>18,988,386</b>	<b>5,696,515</b>	<b>9,356,193</b>	<b>1,910,826</b>
Deferred tax assets, net	<b>7,953,512</b>	<b>2,386,053</b>	<b>3,040,269</b>	<b>647,643</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 14. MINORITY INTEREST

Movements of the minority interest during the years ended December 31, 2003 and 2004 are as follows :

	2004	2003
January 1	3,162,893	19,687,922
Exchange rate differences	(311,036)	-
Share of net loss of subsidiaries	(568,127)	(16,525,029)
December 31	(2,283,730)	3,162,893

#### 15. SHARE CAPITAL

The shareholders of the Company and their percentages of ownership as of December 31, 2004 and 2003, are as follows :

	2004		2003	
	Participation Amount	Participation Percentage	Participation Amount	Participation Percentage
Koç Holding A.Ş.	20,745,000	46.10%	20,745,000	46.10%
Temel Ticaret A.Ş.	8,568,000	19.04%	8,568,000	19.04%
Others	15,687,000	34.86%	15,687,000	34.86%
Inflation accounting effect	125,371,167	-	125,371,167	-
	170,371,167	100.00%	170,371,167	100.00%

As of December 31, 2004 the registered share capital ceiling is YTL 100,000,000 (2003 - YTL 45,000,000) As of December 31, 2004, the Company's share capital consists of 45,000,000,000 shares of YTL 0.01 each (2003 - 45,000,000,000). The nominal share capital of the Company in the statutory books as of December 31, 2004, is YTL 144,889,923 (2003 - YTL 45,000,000). The percentage of ownership is calculated over the nominal values of share capital.

The movement of the share capital (in numbers and in historical YTL) of the Company during 2004 and 2003 is as follows :

	2004		2003	
	Number	YTL	Number	YTL
At January 1	45,000,000,000	45,000,000	20,000,000,000	20,000,000
Bonus shares issued out of revaluation fund :				
Property, plant and equipment	-	-	22,973,606,000	22,973,606
Extraordinary reserves	-	-	215,556,000	215,556
Cost increase fund	-	-	1,810,838,000	1,810,838
At December 31	45,000,000,000	45,000,000	45,000,000,000	45,000,000

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 16. CAPITAL SURPLUS

Capital surplus represents the net proceeds from the sale of stocks at market value. This surplus is recorded in shareholders' equity and is not available for distribution. However, it may be used in future share capital increase. The nominal capital surplus in the statutory books as of December 31, 2004 and 2003, is YTL 7,039.

#### 17. LEGAL RESERVES AND ACCUMULATED DEFICIT

##### Legal Reserves

The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital.

Communique XI-25 "Communique related with Accounting Standards on Capital Market" issued by the TCMB stipulates that beginning from 2003 income, profit distributions will be based on net income reflected in the financial statements prepared in accordance with International Financial Reporting Standards.

Public companies in Turkey make profit distributions in accordance with the regulations of TCMB of Turkey as described below :

Based on the TCMB Communiqué XI-25 part fifteen article 399, the amount included in "Prior Year Losses" account resulting from the first application of inflation accounting should be considered as a deduction during the identification of the profit to be distributed based on the inflation adjusted financial statements. Accordingly, the amount followed under "Prior Year Losses" account, may be offset against period income and retained earnings if exists, and the remaining losses against extraordinary reserves, legal reserves and reserves resulted from inflation adjustment of equity accounts, respectively.

Effective from January 1, 2004, in line with Communiqué XI-25, based on the profits calculated in accordance with IFRS financial statements, appropriation of 30% of the distributable profit is obligatory (2003 - 20%). Based on the decision of General Assembly the appropriation may be on cash basis or through the distribution of free shares not less than 30% of the distributable profit, or may be distributed both as cash and free shares.

As of December 31, 2004 and 2003, the consolidated statutory capital surplus, legal reserve, general reserves, cost increase fund and other equity reserves can be summarized as follows :

	2004			2003
	Before inflation adjustment	Inflation adjustment effect	Total	Total
Capital surplus	7,039	562,193	569,232	7,039
Legal reserves	2,695,152	33,494,784	36,189,936	1,456,178
Extraordinary reserves	33,186,883	10,737,544	43,924,427	12,090,510
Cost increase fund	1,682,300	(1,682,300)	-	1,682,300
Other equity reserves	701,373	1,636,975	2,338,348	701,373

##### Dividends

Cash dividends declared and authorized in 2003 were as follows :

	2003
<b>To common shares</b>	
With nominal amount per share, gross	YTL 0.0001

## **Türk Demir Döküm Fabrikaları Anonim Şirket**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)** **December 31, 2004** **(Currency -- YTL in equivalent purchasing power at December 31, 2004)**

#### **17. LEGAL RESERVES AND ACCUMULATED DEFICIT (continued)**

The Company is planning to determine the profit appropriation of the year 2004 in the board of directors meeting that will be held at April 5, 2005.

Based on the TCMB decision dated February 25, 2005 numbered 7/242, if companies which are consolidated according to TCMB Communiqué XI-21 and XI-25 decide to distribute their profits, the distributable profit can be maximum at the amount of the profit consolidated by the parent company, and furthermore the distributable profit of the subsidiaries which have been decided in their General Assembly will be considered in consolidated financial statements of the parent company.

#### **18. EARNINGS PER SHARE**

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through December 31, 2004.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

#### **19. RELATED PARTY DISCLOSURES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company is controlled by Koç Holding Anonim Şirketi. For the purpose of these financial statements, balance with the associates, investees, shareholders and their affiliates are shown separately and such companies are referred to as "related parties". Due from and to related parties are recognized and carried at cost.

# Türk Demir Döküm Fabrikaları Anonim Şirket

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2004 (Currency -- YTL in equivalent purchasing power at December 31, 2004)

### 19. RELATED PARTY DISCLOSURES (continued)

2004

Related Party	Sales to related parties		Purchases from related parties		Amounts owed by	Amounts owed to	
	Inventory	Fixed Asset	Fixed Asset	Inventory	Services	Related parties	
<b>Shareholders</b>							
Koç Holding A.Ş.	-	-	-	-	-	616,995	
<b>Equity Investments</b>							
Kumsan Döküm Malzemeleri San.ve Tic. A.Ş.	-	-	-	-	-	-	
<b>Investment Available for Sale</b>							
Entek Elektrik Üretim A.Ş.	-	-	-	-	883,424	440,109	
<b>Others</b>							
Ak-Yak Bursa Gaz A.Ş.	-	-	-	-	-	-	
Arçelik	43,402,391	-	-	7,953,444	-	2,475,553	
Ark İnşaat	237,118	-	-	-	-	2	
Aygaz A.Ş.	-	-	-	4,716,867	-	1,153,682	
BEKO	-	-	-	-	56,617	1,401,348	
Birleşik Oksijen Sanayi A.Ş.	-	-	-	393,150	666,439	93,770	
Birmot A.Ş.	-	-	-	-	-	326	
Bursa Gaz ve Ticaret A.Ş.	2,449,965	-	-	92,172	577,877	342,848	
Chung Mei	-	-	-	-	-	265,329	
Divan Otelleri	-	-	-	-	1,290,014	209,126	
Düzey A.Ş.	-	-	-	-	54,643	28,428	
Doktaş	-	-	-	392,171	-	-	
Demiladi	-	-	-	-	-	1,592,973	
Eltek Elektrik	-	50,510	-	-	587,598	328,642	
Ford Otosan	8,054	-	-	-	-	-	
Idea-Inceleme Danışmanlı, Eğitim Araştırma Merkezi A.Ş.	-	-	-	-	-	-	
İnternet Rezervasyon Sistemleri	-	-	-	-	-	-	
İzocam Ticaret ve Sanayi A.Ş.	-	-	-	-	104,010	14,237	
Koç Allianz Sigorta A.Ş.	-	-	-	-	10,427	1,452	
Koç Faktoring Hizmetler A.Ş.	-	-	-	-	-	-	
Koç Lease Finansal Kiralama A.Ş.	-	-	-	-	164,393	-	
Koç Sistem A.Ş.	-	-	-	-	597,993	55,024	
Koç Yatırım Menkul Değerler A.Ş.	-	-	-	-	-	-	
Koçnet A.Ş.	-	-	-	-	44,501	37,216	
Koçtaş Ticaret A.Ş.(Koçtaş Yapı Marketleri)	1,848,317	-	-	-	10,653	101,707	
Kofisa	-	-	-	-	-	1,982,719	
Lipet-Lik Pet Gaz Yak Tic.A.Ş.	-	-	-	-	-	-	
Migros A.Ş.	3,529,892	-	-	13,938	1,544	681,236	
Mogaz Petrol Gazları	-	-	-	127,203	-	59,472	
Oltaş	-	-	-	-	991	-	
Otokoç Otomotiv A.Ş.	-	-	-	-	8,171	914	
Porsuk Ticaret-Bursa Gaz A.Ş.	-	-	-	-	-	-	
Ram America	-	-	-	-	-	34,856	
Ram Dış Ticaret A.Ş.	-	-	-	43,174,317	-	9,076,397	
Ram France	-	-	-	-	-	2,592	
Ram Pacific Ltd.	-	-	-	-	-	45,268	
Ram Sigorta Aracılık Hizmetleri A.Ş.	-	-	-	-	339,346	45,054	
Siemens	-	-	-	106,473	6,323	-	
Set Air Hava Taşımacılığı	-	-	-	-	42,184	-	
Set Oto Ticaret ve Turizm A.Ş.	-	-	-	-	-	9,293	
Tek-iz İzolasyon A.Ş.	-	-	-	-	-	-	
Turyat Setur Seyahat Acentesi İşl.A.Ş.	-	-	-	-	1,282,669	42,212	
Zinerji Enerji San.ve Tic.A.Ş.	-	-	-	-	168,015	32,820	
	<b>51,475,737</b>	<b>50,510</b>	<b>-</b>	<b>56,969,735</b>	<b>6,897,832</b>	<b>5,495,956</b>	<b>15,675,644</b>
Less: Allowance for unearned interest income	-	-	-	-	-	26,062	1,773,385
Less: Allowance for unearned interest expense	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>51,475,737</b>	<b>50,510</b>	<b>-</b>	<b>56,969,735</b>	<b>6,897,832</b>	<b>5,469,894</b>	<b>13,902,259</b>

### YTL EQUIVALENTS OF FOREIGN CURRENCY DENOMINATED ITEMS

	Amounts owed by related parties	Amounts owed to related parties
<b>2004</b>		
USD	1,635,990	11,672,854
British Pound	-	3,021,577
EURO	257,168	2,125
<b>2003</b>		
USD	332,304	-
British Pound	-	6,429,518
EURO	101,634	-

# Türk Demir Döküm Fabrikaları Anonim Şirket

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2004 (Currency -- YTL in equivalent purchasing power at December 31, 2004)

### 19. RELATED PARTY DISCLOSURES (continued)

2003

Related Party	Sales to related Parties		Purchases from related parties			Amounts owed by	Amounts owed to
	Inventory	Fixed Asset	Fixed Asset	Inventory	Services	Related parties	Related parties
<b>Shareholders</b>							
Koç Holding A.Ş.	-	-	-	-	917,251	-	270,281
<b>Other Non-Current Assets</b>							
Demiladi	-	-	-	-	-	189,459	-
<b>Investment Available for Sale</b>							
Entek Elektrik Üretim A.Ş.	-	-	-	6,081,917	-	-	433,726
Garanti Balfour Beatty	-	-	34,382	-	-	-	-
<b>Others</b>							
Beko U.K Ltd.Şti	-	-	20,707,494	13,712,302	596,365	-	1,624,496
Beko Elektronik	-	-	-	212,798	-	-	59,694
Koç Yapı Malzemeleri Tic.A.Ş.	-	-	-	10,025	-	535	-
Bursa Gaz ve Ticaret A.Ş.	1,534,813	-	-	180,057	-	81,275	-
Ak-Yak Bursa Gaz A.Ş.	-	-	-	355,018	-	-	-
Porsuk Ticaret-Bursa Gaz A.Ş.	-	-	-	-	-	-	-
Arçelik	39,723,480	4,647,388	-	13,432,668	-	6,674,379	-
Koçtaş Ticaret A.Ş.(Koçtaş Yapı Marketleri)	1,365,214	-	-	1,031	-	249,165	-
Ram America	-	-	-	-	-	-	-
Kofisa	-	-	-	-	-	-	4,303,552
Ark İnşaat	189,887	-	585,847	465,330	-	-	193,397
Koratrade	-	-	-	-	-	-	2,114,530
Ford Otosan	5,282	-	-	324	-	-	-
Turyat Setur Seyahat Acentesi İşl.A.Ş.	-	-	-	-	640,811	138,045	-
Arçelik LG Klima Sanayi A.Ş.	-	-	-	3,605,240	-	-	-
Birleşik Oksijen Sanayi A.Ş.	-	-	-	293,844	-	-	66,771
Birmot A.Ş.	-	-	-	400,354	-	-	49,697
Divan Otelleri	-	-	-	-	50,557	-	9,774
İnternet Rezervasyon Sistemleri	-	-	-	-	39,567	-	-
Idea-Inceleme Danışmanlı.Eğitim Araştırma Merkezi A.Ş.	-	-	-	-	2,272	-	-
Lipet-Lik Pet Gaz Yak Tic.A.Ş.	-	-	-	12,717	-	-	9,278
İzocam Ticaret ve Sanayi A.Ş.	-	-	-	68,531	-	-	1,722
Otokar	49,927	-	-	-	-	-	-
Koç Faktoring Hizmetler A.Ş.	-	-	-	-	3,174,841	-	-
Koç Lease Finansal Kiralama A.Ş.	19,139	-	-	-	155,721	-	-
Koç Sistem A.Ş.	-	-	14,578	-	855,164	-	65,720
Koçnet A.Ş.	-	-	-	-	402,342	-	70,566
Migros A.Ş.	9,857	-	-	14,286	-	-	12,165
Otokoç Otomotiv A.Ş.	-	-	34,709	63,127	-	-	886
Koç Yatırım Menkul Değerler A.Ş.	-	-	-	5,155	12,566	-	-
Ram Dış Ticaret A.Ş.	-	-	-	22,261,023	-	-	4,096,620
Ram Sigorta Aracılık Hizmetleri A.Ş.	-	-	-	-	1,373,033	-	41,340
Set Oto Ticaret ve Turizm A.Ş.	-	-	-	-	20,741	-	2,109
Tek-iz İzolasyon A.Ş.	-	-	-	83,611	-	-	8,348
Siemens Sanayi ve Ticaret	-	-	-	349,908	-	-	190,108
Zinerji Enerji San.ve Tic.A.Ş.	-	-	-	-	290,084	-	3,537
Ram Pacific Ltd.	-	-	-	-	-	190,452	-
Ramerica	-	-	-	-	-	54,026	-
Mogaz Petrol Gazları	-	-	-	117,593	-	-	456
Aygaz A.Ş.	152,583	-	-	2,966,361	-	-	675,430
Döktaş	-	-	-	4,021	-	4,167	-
Koç Bilgi Grubu	-	-	-	-	46,343	-	-
Aygaz Gaz Aletleri A.Ş.	-	-	-	691,650	-	-	-
Other	-	-	-	-	-	3,246	1,072
	43,050,182	4,647,388	21,377,010	65,388,891	8,577,658	7,584,749	14,305,275
<b>Less: Allowance for unearned interest income</b>	-	-	-	-	-	649,700	-
<b>Less : Allowance for unearned interest expense</b>	-	-	-	-	-	-	25,439
<b>TOTAL</b>	<b>43,050,182</b>	<b>4,647,388</b>	<b>21,377,010</b>	<b>65,388,891</b>	<b>8,577,658</b>	<b>6,935,049</b>	<b>14,279,836</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2004 (Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 19. RELATED PARTY DISCLOSURES (continued)

Inventory purchases (portions remaining in the balance sheet at the balance sheet date) :

Purchased from	2004	2004
Arçelik LG	-	119,099
<b>Total</b>	<b>-</b>	<b>119,099</b>

Miscellaneous transactions	2004	2003
Counter guarantees given in favour of Ram Dış Ticaret A.Ş. and Migros A.Ş.	8,052,600	9,534,111
Bank deposits at Koçbank	1,393,096	13,839,311
Loan obtained from Koçbank	4,790,000	-
Koçbank financial expenses	-	-
Advertising expense charged by Arçelik	983,975	744,147
Sales commissions, marketing expenses charged by Beko UK Ltd.	2,203,646	243,892
Donations to Koç Vakfı	-	145,573
Factoring expenses	7,841,734	-

The Company has obtained dividend income of YTL 576,771 from Entek and YTL 39,218 from Kumsan as of December 31, 2004.

#### Executive Member's Remuneration

The executive members of the Company's management received salaries totalling YTL 5,899,406 (2003 – YTL 2,282,425 ).

#### 20. FINANCIAL INSTRUMENTS

##### Financial Risk Management Objectives and Policies

##### Financial risk management objectives and policies

The Company's principal financial instruments, comprise bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board / management reviews and agrees policies for managing each of these risks and they are summarised below. The Company and its subsidiaries also monitors the market price risk arising from all financial instruments.

##### Foreign Currency Risk

The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to U.S. Dollar, Euro, British Pound, Swiss Franc.

## **Türk Demir Döküm Fabrikaları Anonim Şirket**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

**(Currency -- YTL in equivalent purchasing power at December 31, 2004)**

#### **20. FINANCIAL INSTRUMENTS (continued)**

The Company also has transactional currency exposures. Such exposures arise from sales or purchases or borrowings by the Company in currencies other than the Company's measurement currency (YTL).

The Company manages foreign currency risk by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities. Net foreign currency liabilities of the Company at December 31, 2004 and December 31, 2003 is approximately YTL 48,500,532 and YTL 17,437,929 long position respectively.

#### **Price Risk**

This is a combination of currency, interest and market risks which the Company manages through natural hedges that arise from offsetting the same currency receivables and payables, interest bearing assets and liabilities. Market risk is closely monitored by the management using the available market information and appropriate valuation methods.

#### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of the counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company seeks to manage its credit risk exposure through diversification of sales activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Company also obtains security when appropriate.

#### **Liquidity Risk**

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The risk is mitigated by matching the cash in and out flow volume supported by committed lending limits from qualified credit institutions.

#### **Fair Values**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Fair values of certain financial assets and liabilities carried at cost, including cash and cash equivalents, receivables and payables, bank borrowings are considered to approximate their respective carrying values due to their short-term nature. The financial assets and liabilities which are denominated in foreign currencies are evaluated by the foreign exchange rates prevailing on the date of balance sheet which approximate to market rates.

## **Türk Demir Döküm Fabrikaları Anonim Şirket**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2004**

**(Currency -- YTL in equivalent purchasing power at December 31, 2004)**

#### **20. FINANCIAL INSTRUMENTS (continued)**

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

##### *Financial Assets*

For monetary assets the fair value approximates carrying value. The fair values of certain financial assets carried at cost, including cash and cash equivalents plus the respective accrued interest and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The carrying value of trade receivables along with the related allowance for unearned income and uncollectibility are estimated to be their fair values.

##### *Financial Liabilities*

Monetary liabilities for which fair value approximates carrying value; trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The bank borrowings are stated at their amortized costs and transaction costs are included in the initial measurement of loans and bank borrowings. The fair value of bank borrowings are considered to state their respective carrying values since the interest rate applied to bank loans and borrowings are updated periodically by the lender to reflect active market price quotations. The carrying value of trade payables along with the related allowance for unrealized cost is estimated to be their fair values.

#### **21. COMMITMENTS AND CONTINGENCIES**

- (a) As of December 31, 2004 and 2003, the Company is contingently liable to the extent of YTL 20,851,642 and YTL 12,502,412, respectively, regarding letters of guarantee obtained from banks and given to various companies, courts and customs offices.
- (b) As of December 31, 2004, the Company has given counter guarantee in favour of related parties at the amount of YTL 8,052,600 (equivalent of USD 6,000,000) (2003 - YTL 9,534,111 - equivalent of USD 6,000,000).
- (c) As of December 31, 2004, for the lawsuits filed against the Company amounting to a total of approximately YTL 1,297,187 (2003 - YTL 1,722,215), the Company has provided provision amounting to YTL 195,946 (2003 - YTL 223,065). Among these lawsuits, the Company was decided to be liable for an amount of USD 123,202 due to the expertise report prepared related to a compensation lawsuit, which was opened against the Company at an amount of USD 1,000,000. The Company has objected to this decision, but on the other hand provided a reserve for the amount of U.S. Dollars 123,202 equivalent YTL 165,349. For the remaining portion of YTL 1,101,241, the Company did not provide any provision for these cases since the outcome of the litigations were uncertain. However, according to the decision of the Court held on February 27, 2004, the Company is liable for USD 800,000. The Company has applied to Court of Appeal for the denial of the decision and waits for the approval of Appeal Court. Management believes that no material adverse outcome will result from these litigations therefore there is no accrual in the financial statements about this lawsuit.

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2004 (Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 21. COMMITMENTS AND CONTINGENCIES (continued)

##### (d) Financial Instruments

The nominal amount of forward transactions realized thru Koçbank; a related party, as of December 31, 2004 is as below:

Term	Euro Amount	Agreed Foreign Currency Rate Euro / USD	YTL Amount
18/02/2005	1,934,495	1.278	3,533,935
18/03/2005	1,825,083	1.278	3,334,062
	<b>3,759,578</b>		<b>6,867,997</b>

As of December 31, 2004, the market price of the forward transactions amounting to YTL 418,044 has been reflected as an obligation in the short-term liabilities.

#### 22. REVENUES AND EXPENSES

	2004	2003
<b>Revenues</b>		
Sale of Goods	<b>277,279,547</b>	149,914,175
Sale of Merchandise	<b>201,316,947</b>	190,526,609
Rendering of Services	<b>29,515,489</b>	16,183,088
<b>Total</b>	<b>508,111,983</b>	<b>356,623,872</b>

##### Personnel Expenses and Average Number of Employees

	2004	2003
Wages and salaries	<b>24,616,042</b>	33,587,614
Other social expenses	<b>4,954,000</b>	6,683,131
Provision for employee termination benefits	<b>1,093,061</b>	831,134
	<b>30,663,103</b>	<b>41,101,879</b>

## Türk Demir Döküm Fabrikaları Anonim Şirket

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- YTL in equivalent purchasing power at December 31, 2004)

#### 22. REVENUES AND EXPENSES (continued)

The average number of employees (out of which 75 are employed in England) for the years ended December 31, 2004 and 2003 was 1,523 and 1,268, respectively.

	2004	2003
<b>Depreciation on property, plant and equipment and amortization of intangibles</b>		
Cost of Production	11,064,960	14,760,977
Administrative expenses	2,040,637	1,813,168
	<b>13,105,597</b>	<b>16,574,145</b>
<b>Financial income</b>		
Term difference income related to current year sales	2,459,846	10,714,675
Foreign exchange gain	2,303,361	7,827,693
Interest income	81,433	115,188
Forward income	-	724,224
Total financial income	<b>4,844,640</b>	<b>19,381,780</b>
<b>Financial expense</b>		
Interest expenses	(23,799,219)	(21,889,738)
Term difference expenses from purchases	(6,816,087)	(2,886,798)
Foreign exchange losses	-	(1,888,880)
Forward expenses	(418,044)	-
Total financial expense	<b>(31,033,350)</b>	<b>(26,665,416)</b>
Financial expense, net	<b>(26,188,710)</b>	<b>(7,283,636)</b>
<b>Other operating income</b>		
Foreign exchange gain	1,472,905	3,474,795
Prior year income	56,548	2,780,337
Income from inventory count differences	218,278	234,087
Dividend received	615,989	149,283
Recovery from bad debt provision	95,276	23,366
Fixed asset sales income	67,449	22,425
Miscellaneous income	1,220,336	766,898
	<b>3,746,781</b>	<b>7,451,191</b>
<b>Other operating expenses</b>		
Foreign exchange losses	(1,370,688)	(3,250,535)
Provision for doubtful receivables	(904,784)	(1,385,701)
Loss from inventory count differences	(378,031)	(367,020)
Prior year losses	(68,395)	(58,735)
Miscellaneous	-	(21,834)
Provision for impairment in investments available for sale	-	(767,274)
	<b>(2,271,898)</b>	<b>(5,851,099)</b>
Other operating income, net	<b>1,024,883</b>	<b>1,600,092</b>

As of December 31, 2003, prior year income amounting to YTL 2,780,337 consists of withholding tax on preemptive rights sales income which was calculated and paid in 2003. However, after the change in Law No:4842 the Company has accounted the balance as prior year income.

#### 23. SUBSEQUENT EVENTS

Effective from January 1, 2005, ceiling for retirement pay has been increased to YTL 1,684.