

(Convenience Translation of a Report and Financial Statements  
and Notes Originally Issued in Turkish)

# **Türk Demir Döküm Fabrikaları Anonim Şirketi**

**Consolidated Financial Statements  
Together With  
Report of Independent Auditors  
December 31, 2005**

(Convenience Translation of a Report and Financial Statements and Notes Originally Issued in Turkish)

## TÜRK DEMİR DÖKÜM FABRİKALARI ANONİM ŞİRKETİ

### TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Consolidated Balance Sheet	2-3
Consolidated Income Statement	4
Consolidated Statement of Changes in Shareholder's Equity	5
Notes to the Consolidated Financial Statements	6-49

(Convenience Translation of a Report and Financial Statements and Notes Originally Issued in Turkish)

**TÜRK DEMİR DÖKÜM FABRİKALARI ANONİM ŞİRKETİ  
INDEPENDENT AUDITORS CONSOLIDATED AUDIT REPORT  
FOR THE PERIOD OF JANUARY 1 - DECEMBER 31, 2005**

To the Board of Directors of

Türk Demir Döküm Fabrikaları Anonim Şirketi

We have examined the accompanying consolidated balance sheet of Türk Demir Döküm Fabrikaları Anonim Şirketi (Demir Döküm - a Turkish corporation) as of December 31, 2005 and the related consolidated income statement for the year then ended, statement of changes in equity. Except for the subject explained in paragraph 2, our examination was made in accordance with the auditing principles, bases and standards issued by the Capital Market Board (CMB) and, accordingly included in connection with the accounts and transactions, tests of accounting records and other auditing techniques we considered necessary.

As discussed in note 19, regarding the transaction made in 2005; the International Financial Reporting Standard 3, "Business Combinations", has not been applied as of December 31, 2005. The effects of not applying this standard to the financial statements could not be determined.

As discussed in note 16 (a), the Company has not reflected the fair value of Ram Dış Ticaret A.Ş which is presented as investments available for sale in the accompanying consolidated financial statements and carried at its cost value as of December 31, 2005.

As of December 31, 2005, 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 second, third and fourth paragraphs above the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Türk Demir Döküm Fabrikaları A.Ş. as of December 31, 2005, and the results of its operations for the year then ended in accordance with the accounting standards (Note 2) issued by CMB.

**Additional paragraph for convenience translation to English :**

As of December 31, 2005, the accounting principles described in Notes 2 and 3 (defined as CMB Accounting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board with respect to the application of inflation accounting and the presentation of the basic financial statements and the notes to them. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

Güney Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
An Affiliated Firm of Ernst & Young International

Billur Demet Atan, SMMM  
Engagement Partner

February 24, 2006  
Istanbul, Turkey

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**CONSOLIDATED BALANCE SHEET**

**As at December 31, 2005**

**(Currency - New Turkish Lira (YTL))**

<b>ASSETS</b>	<b>Notes</b>	<b>Audited December 31, 2005</b>	<b>Audited December 31, 2004</b>
<b>Current assets</b>		<b>352.418.602</b>	<b>294.593.833</b>
Cash and cash equivalents	4	12.659.746	7.581.750
Marketable securities, net	5	-	-
Trade receivables, net	7	215.816.008	197.238.420
Finance lease receivables, net	8	-	-
Due from related parties, net	9	10.151.210	5.469.894
Other receivables, net	10	77.191	1.039.152
Live stock, net	11	-	-
Inventories	12	101.153.075	78.859.974
Costs and estimated earnings in excess of billings on uncompleted contracts, net	13	-	-
Deferred tax assets	14	-	-
Other current assets	15	12.561.372	4.404.643
<b>Non current assets</b>		<b>115.868.043</b>	<b>85.046.079</b>
Trade receivables, net	7	-	-
Finance lease receivables, net	8	-	-
Due from related parties, net	9	-	-
Other receivables, net	10	-	-
Financial assets, net	16	40.852.024	19.156.949
Positive Goodwill (net)	17	4.369.869	4.869.586
Investment property, net	18	-	-
Property, plant and equipment, net	19	67.609.750	57.453.925
Intangibles, net	20	584.082	660.438
Deferred tax assets	14	2.452.318	2.903.136
Other non current assets	15	-	2.045
<b>Total Assets</b>		<b>468.286.645</b>	<b>379.639.912</b>

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of the financial statements

**Türk Demir Döküm Fabrikaları Anonim Şirketi****CONSOLIDATED BALANCE SHEET  
As at December 31, 2005  
(Currency - New Turkish Lira (YTL))**

<b>LIABILITIES</b>	<b>Notes</b>	<b>Audited December 31, 2005</b>	<b>Audited December 31, 2004</b>
<b>Current liabilities</b>		<b>251.996.094</b>	197.120.965
Short term borrowings, net	6	49.775.887	20.774.047
Current portion of long term borrowings, net	6	11.385.740	4.306.814
Finance lease obligations, net	8	107.306	-
Other financial liabilities, net	10	-	-
Trade payables, net	7	106.345.098	70.146.791
Due to related parties, net	9	61.692.580	86.613.952
Advances taken	21	4.990.642	3.149.042
Billings in excess of costs and estimated earnings on uncompleted contracts, net	13	-	-
Provisions	23	6.870.608	5.771.182
Deferred tax liability	14	-	-
Other liabilities	10	10.828.233	6.359.137
<b>Non current liabilities</b>		<b>36.571.426</b>	35.401.722
Long term borrowings, net	6	20.637.500	12.787.600
Finance lease obligations, net	8	114.093	-
Other financial liabilities, net	10	-	-
Trade payables, net	7	-	-
Due to related parties, net	9	8.930.486	16.586.219
Advances taken	21	-	-
Provisions	23	6.400.992	5.510.820
Deferred tax liability	14	488.355	517.083
Other liabilities, net	10	-	-
<b>Minority interest</b>	24	<b>3.771.768</b>	2.283.730
<b>Equity</b>		<b>175.947.357</b>	144.833.495
Share capital	25	45.000.000	45.000.000
Issued Capital Subsidiaries Elimination	25	-	-
Capital reserves	26	85.763.996	186.953.021
Share premium		-	7.039
Income on common stock disposals		-	-
Revaluation fund		-	-
Financial assets value increase fund	27	15.264.676	-
Equity restatement differences		70.499.320	186.945.982
Profit reserves	27	16.576.778	(112.196.039)
Legal reserves		4.611.451	2.321.871
Statutory reserves		-	-
General reserves		7.786.933	(116.453.701)
Special reserves		-	-
Gain on sale of investments and fixed assets to be transferred to the share capital		-	-
Currency translation differences		4.178.394	1.935.791
Net profit for the period		28.606.583	25.076.513
Prior year profits	28	-	-
<b>Total liabilities and equity</b>		<b>468.286.645</b>	379.639.912

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of the financial statements

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**CONSOLIDATED INCOME STATEMENT**

**For the year ended December 31, 2005**

**(Currency - New Turkish Lira (YTL))**

	<b>Notes</b>	<b>Audited</b>	<b>Audited</b>
		<b>December 31,</b>	December 31,
		<b>2005</b>	2004
<b>Operating Income</b>			
Net Sales	36	<b>572.022.617</b>	492.479.979
Cost of sales	36	<b>(421.106.400)</b>	(357.951.211)
Service income, net	36	-	-
Other income from operational activities, net	36	-	-
<b>Gross Profit</b>		<b>150.916.217</b>	134.528.768
Operating Expenses (-)	37	<b>(91.696.091)</b>	(77.512.243)
<b>Profit from operations, net</b>		<b>59.220.126</b>	57.016.525
Other operating income	38	<b>2.888.112</b>	3.746.781
Other operating expense (-)	38	<b>(1.786.990)</b>	(2.721.898)
Financial expense (-)	39	<b>(16.897.272)</b>	(18.202.881)
<b>Operating profit</b>		<b>43.423.976</b>	39.838.527
Monetary gain	40	-	(6.895.105)
<b>Minority interest</b>		<b>(1.834.022)</b>	568.127
<b>Profit before tax</b>		<b>41.589.954</b>	33.511.549
Tax	41	<b>(12.983.371)</b>	(8.435.036)
<b>Net Profit</b>		<b>28.606.583</b>	25.076.513
Basic earnings per share (full YTL)	42	<b>0,0064</b>	0,0056
Weighted average number of shares (0.01 YTL par value each)		<b>4.500.000.000</b>	4.500.000.000

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of the financial statements

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**For the year ended December 31, 2005**

**(Currency - New Turkish Lira (YTL))**

	Share Capital	Share Premiums	Equity restatement differences	Financial assets value increase fund	Legal reserves	General reserves	Currency translation differences	Net profit	Accumulated profits	Total equity
Balance at January 1, 2004	45.000.000	7.039	186.945.982	-	1.246.681	(134.120.068)	-	18.741.557	-	117.821.191
Offsetting prior year losses										
Transfer from prior year profits to legal reserves	-	-	-	-	1.075.190	-	-	(1.075.190)	-	-
Financial assets value increase fund	-	-	-	-	-	-	-	-	-	-
Transfer from prior year profits to general reserves	-	-	-	-	-	17.666.367	-	(17.666.367)	-	-
Net currency translation differences	-	-	-	-	-	-	1.935.791	-	-	1.935.791
Dividends paid	-	-	-	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	-	-	25.076.513	-	25.076.513
<b>Balance at December 31, 2004</b>	<b>45.000.000</b>	<b>7.039</b>	<b>186.945.982</b>	<b>-</b>	<b>2.321.871</b>	<b>(116.453.701)</b>	<b>1.935.791</b>	<b>25.076.513</b>	<b>-</b>	<b>144.833.495</b>
	Share Capital	Share Premiums	Equity restatement differences	Financial assets value increase fund	Legal reserves	General reserves	Currency translation differences	Net profit	Accumulated profits	Total equity
Balance at January 1, 2005	45.000.000	7.039	186.945.982	-	2.321.871	(116.453.701)	1.935.791	25.076.513	-	144.833.495
Offsetting prior year losses (Note 25)	-	(7.039)	(116.446.662)	-	-	116.453.701	-	-	-	-
Transfer from prior year profits to legal reserves	-	-	-	-	2.289.580	-	-	(2.289.580)	-	-
Financial assets value increase fund (Note 27)	-	-	-	15.264.676	-	-	-	-	-	15.264.676
Transfer from prior year profits to general reserves (Note 26)	-	-	-	-	-	22.786.933	-	(22.786.933)	-	-
Net currency translation differences	-	-	-	-	-	-	2.242.603	-	-	2.242.603
Dividends paid	-	-	-	-	-	(15.000.000)	-	-	-	(15.000.000)
Net profit for the period	-	-	-	-	-	-	-	28.606.583	-	28.606.583
<b>Balance at December 31, 2005</b>	<b>45.000.000</b>	<b>-</b>	<b>70.499.320</b>	<b>15.264.676</b>	<b>4.611.451</b>	<b>7.786.933</b>	<b>4.178.394</b>	<b>28.606.583</b>	<b>-</b>	<b>175.947.357</b>

The accompanying policies and explanatory notes on pages 6 through 49 form an integral part of the financial statements.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**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 specialized in the sales and servicing of radiators was sold to DD Heating Limited (DD Heating) in which the Company owns 50%. 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 GBP 9.700.000 at 5%(Libor+1,25%) repayable by April 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 Snai 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 Demir Döküm to Demrad as capital in-kind. The Company owns 99.9% of Demrad.

According to the Board of Directors 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 participation of under the name of Chung Mei Industries Limited (Chung Mei). The new established Company will sell products under the brand name of Doka in China. The fixed assets of the radiator production facility with the historical cost value of YTL 89.289 as of December 31, 2002, have been 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, 2005, per the unaudited financial statements of Chung Mei, the total assets is USD 7.852.479, total equity is USD 2.664.201 and net income for the period is USD 200.465. Chung Mei has not been consolidated as to equity pick-up method to the consolidated financials of Demir Döküm, since the audited financial statements could not be obtained as of the date of this report and it is carried at cost as YTL 1.754.891 in equity investments.

According to the Board of Directors resolution dated May 14, 2003, the Company has decided to operate its selling, marketing and warehousing facilities in China Tianjin Free Trade Zone. 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 year end audited financial statements of this subsidiary could not be obtained as of December 31, 2005, it has not been consolidated as of December 31, 2005, and carried at its cost of YTL 202.933. As of December 31, 2005 total assets of Demiladi in non audited financial statements is USD 1.250.803, total equity is USD 24.977, and net loss for the period is USD 130.944.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**1. CORPORATE INFORMATION (continued)**

The consolidated financial statements are authorized for issue by the Company Management on February 24, 2006. The General Assembly and certain regulatory bodies have the power to amend the consolidated and statutory financial statements after issue.

The parent of Demir Döküm is Koç Holding.

The average number of employees in 2005 is 1.604 out of which 283 white collared and 1.321 blue collared.

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".

**Nature of activities**

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

**2. BASIS OF PRESENTATION**

**Basis of Presentation**

The financial statements of the Company have been prepared in accordance with accounting and reporting standards as prescribed by Turkish Capital Market Board ("CMB Accounting Standards"). The CMB has issued Communiqué No. XI-25 "Communiqué on Accounting Standards in Capital Markets" which sets out a comprehensive set of accounting principles. In this Communiqué, the CMB stated that, as an alternative, application of accounting standards prescribed by the International Accounting Standards Board and the IASC will also be considered to be compliant with the CMB Accounting Standards. With the decision taken on March 17, 2005, the CMB has declared that application of inflation accounting is no longer required for companies operating in Turkey which are reporting in accordance to CMB Accounting Standards effective from January 1, 2005. The financial statements have been prepared under the alternative application defined by the CMB as explained above. The financial statements and explanatory notes are presented using the compulsory standard formats as prescribed by the CMB. The financial statements as of December 31, 2004, which are presented for comparison are presented with the purchasing power of YTL as of December 31, 2004.

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 CMB as explained above.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**2. BASIS OF PRESENTATION (continued)**

Such adjustments mainly comprise the effects of the followings;

- Consolidation of the subsidiary
- Deferred taxation
- Recognition and measurement of financial instruments
- Employee termination benefits.

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted on January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, TRY) the new currency unit for the Republic of Turkey. Conversion rate for TL against TRY is fixed at TRY 1 to TL 1.000.000 through out the period until complete phase-out TL.

Accordingly, the Company's financial statements as of December 31, 2005 and comparative figures for the prior period have also been presented in YTL, using the conversion rate of TL 1.000.000/TRY=1,00.

**Classifications Made in 2004 Financial Statements**

Certain reclassifications have been made in the consolidated financial statements as of December 31, 2004 to be consistent with the current year presentation. These reclassifications include first time operations and assembling expenses amounting to YTL 7.646.175 to be classified from selling and marketing expenses to sales discounts and sales discounts amounting to YTL 7.985.829 from financial expenses to sales returns.

**Functional and Reporting Currency**

Functional and reporting currency of Demir Döküm and its subsidiaries which operate in Turkey is YTL. Functional and reporting currency of DD Heating which operates in Great Britain is Great Britain Pound and related balance sheet accounts are converted into YTL using the exchange rate at the date of the balance sheet and profit and loss accounts using the average buying exchange rates. As of December 31, 2005, 1 Great Britain Pound = 2.3121 YTL – with the average rate, Great Britain Pound = 2.4395 YTL).

As of December 31, 2004 and December 31, 2005, the three year cumulative inflation rates were 69,7% and 35,6% and annual inflation rates were 13,8% and 4,5% based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Consequently, in accordance with CMB announcement No. 7642 dated March 18, 2005; since the objective conditions for the restatement in hyperinflationary economies is no longer available, the financial statements are restated until December 31, 2004.

As of December 31, 2004, the restatement of financial statements was made in accordance with IAS 29 (“Financial Reporting in Hyperinflationary Economies”) which requires that the current period financial statements and previous period financial statements which are presented for comparison purposes have been restated with the conversion factor as of December 31, 2004. Such index and conversion factors as of the end of the three year period ended December 31, 2004 are given below:

Dates	Index	Conversion factors
December 31, 2001	4,951.7	1,6972
December 31, 2002	6.478,8	1,297
December 31, 2003	7.382,1	1,138
December 31, 2004	8.403,8	1,000

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**2. BASIS OF PRESENTATION (continued)**

The main guidelines for the above mentioned restatement are as follows:

- Since the restatement activity is ended as of January 1, 2005, financial statements, represented for comparison purposes as of December 31, 2004, are shown by using measuring unit valid in December 31, 2004 and balances in these financial statements are accepted as opening balances for 2005.
- Monetary assets and liabilities shown in consolidated financial statements as of December 31, 2004 are not restated since they are already shown by using measuring unit valid in balance sheet date.
- The inflation adjusted share capital was derived by indexing cash contributions, dividends, reinvested transfers from statutory retained earnings from the date they were contributed through December 31, 2004.
- Non-monetary assets, liabilities and other shareholders' equity (except eliminated revaluation fund ) are restated by applying the relevant conversion factors through December 31, 2004.
- The effect of inflation as of December 31, 2004 to net monetary position is reflected as net monetary loss in income statement.
- All items in the income statement are restated by applying appropriate average conversion factors until December 31, 2004 with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets and participation losses which have been calculated based on the restated gross book values and accumulated depreciation/amortization.

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 balance sheets. Similarly, it does not necessarily mean that the Company could return or settle the same values of equity to its shareholders.

**Foreign Currency Translation Differences**

Operating results of the subsidiaries, whose functional currency belongs to non-hyperinflationary economies, are translated to the Company's reporting currency (YTL) using the methods below:

- a) all monetary and non-monetary assets and liabilities are converted at the rate of exchange ruling at the balance sheet date;
- b) income and expense items are converted with the exchange rate of the date of transaction;
- c) all translation differences are classified as foreign currency translation differences under shareholders' equity until the disposal of the subsidiary

DD Heating which is a subsidiary of the Company uses Great Britain Pound in its financial statements.

**Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset 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 FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**2. BASIS OF PRESENTATION (continued)**

**Use of Estimates**

The preparation of financial statements, require management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Those estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

**Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31, 2005.

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 statements 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 audited financial statements of Demiladi could not be obtained, Demiladi has not been consolidated and stated at cost.

As of December 31, 2005, 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, since the subsidiary's audited financial statements could not be obtained and carried at cost.

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, 2005 and December 31, 2004, 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. The Company's indirect participation percentage on Panel is 75%.

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.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**2. BASIS OF PRESENTATION (continued)**

**Comparative Information and Correction of Previous Period's Financial Statements**

In order to be consistent with current period consolidated financial statements prepared in accordance with CMB requirements for financial statements and notes, which had become obligatory with CMB decree of 1604 since December 10, 2004, there are reclassifications made in consolidated financial statements and notes formed in accordance with IFRS as of December 31, 2004. Reclassifications basically include decomposition of current and non current parts of assets and liabilities and in terms of the conformity for obligatory format of financial statements, grouping the balance sheet and income statement items which were represented more detailed in previous years.

**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of discounts and Value Added Tax (VAT) when delivery has taken place and transfer of risks and rewards has been completed.

i) 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.

ii) Interest Income

Interest income is accounted on an accrual basis.

iii) Dividends

Revenue is recognized when the shareholders' right to receive the payment is established.

**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. As of December 31, 2005 and December 31, 2004 assets and liabilities denominated in foreign currencies have been translated with the buying exchange rates declared by CMB, respectively. 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.

**Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, cash at banks, checks and deposits with original maturity of three months or less. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturity of three months or less and that are subject to an insignificant risk of change in value.

Cash and cash equivalents are shown as the total of cost of acquisition and accrued interest.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Trade Receivables**

Trade receivables which generally have 120-145 day terms are recognized at original invoice amount less for an allowance for any uncollectible amounts and for unearned interest income.

Notes and post-dated checks which are classified within trade receivables 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 conditions are accounted as follows:

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

Finished goods and work-in progress-cost of direct materials and labor 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.

**Financial assets**

As of December 31, 2005, the equity investments of the Company, are comprised of Chung Mei, Demiladi and Kumsan Döküm Malzemeleri Sanayi ve Ticaret A.Ş. in which the participation of the Company is 45%, 60,00% and 25,14 %, respectively, are carried at cost.

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, which details are given in Note 16.

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.

Entek, which is classified as investments available for sale as of December 31, 2005 is carried at its fair value, in accordance with appraisal report issued by an independent firm. In this respect, the difference occurred in the carrying value of the investment available for sale amounting to YTL 2.914.699 is reflected as "Financial assets value increase fund" under shareholders' equity account.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, Plant and Equipment**

All property, plant and equipment are initially stated at cost and then are carried at restated cost until December 31, 2004 with the index of the related purchase date. Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Property, plant and equipment are capitalized and depreciated when they are fully commissioned and in a physical state to meet their designed production capacity.

Assets which are subject to depreciation, are depreciated over the historical costs on a straight line basis using the below estimated useful lives:

Land improvements	25 years
Buildings	25 years
Furnitures and fixtures	5 years
Machinery and equipment	3-10 years
Moulds and models	2-5 years
Vehicles	3-5 years
Leasehold improvements	5 years

**Intangible Assets**

Intangible assets are initially stated at cost and are restated until December 31, 2004 with the index of the related purchase date. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. Intangible assets are stated at cost less accumulated depreciation and accumulated impairment loss. Intangible assets excluding development costs, created within the Company are not capitalized and expenditure is charged against profits and loss 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 intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

**Positive Goodwill**

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 arose from the business combinations before April 1, 2004 is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years and goodwill is reviewed for possible impairment when events and changes in circumstances indicate that the carrying value may not be recoverable. Whenever the carrying amount exceeds its recoverable amount, an impairment loss is recognized in the statement of income. If the carrying value is not recoverable, goodwill is stated at cost less accumulated amortization and any impairment in value. The goodwill arising from the business combinations on and after April 1, 2004 is not amortized, and stated at cost less any impairment in value. If there is an impairment in value of previously recognized goodwill, it is stated after providing impairment reserve.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 loss are recognized when the obligations are derecognized, or in repayment process.

**Financial Instruments**

***Financial Risk Management and Policies***

The Company's principal financial instruments comprise bank borrowings, cash and short-term deposits. The main purpose of these financial instruments is to raise funds 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 can be identified as interest rate risk, foreign currency risk, liquidity risk and credit risk. The Company management reviews and agrees policies for managing each of these risks. The Company also monitors the market price risk arising from all financial instruments.

***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.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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 Value***

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.

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.

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**

The fair values of cash and cash equivalents together with their accrued interests and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit risk. Trade receivables are considered to approximate their respective carrying values after deducting the allowance for bad debt.

**Financial Liabilities**

The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. Borrowings are recognized at discounted cost and costs of transactions are added. The fair values of borrowings are considered to reflect their respective carrying values since related interest rates are updated according to the changing market conditions. The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

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

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Borrowing Costs**

Borrowing costs are expensed as incurred.

**Impairment of Non Financial Assets**

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income. The recoverable amount of property and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in the statement of income.

**Income Taxes**

Income tax 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 liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and unused tax losses can be utilized. 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 utilized.

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

**Trade 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.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employee Termination Benefits**

**(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 over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the attached financial statements, the Company has reflected a liability using the “Projected Unit Credit Method” based on the past experiences of the employees’ service period and entitlement to receive retirement pay liability and discounted using government bonds’ rate of return on the balance sheet day. All actuarial gains and losses have been reflected to 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 an employee benefit expense when they are due.

**Recognition and Derecognizing of Financial Assets and Liabilities**

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 a financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion of a 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.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase or to sell 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.

**Earnings per share**

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares that have been outstanding during the period. The weighted average number of shares outstanding during the year has been adjusted in respect of free shares issued without corresponding increase in resources.

**Subsequent Events**

Post year-end events that provide additional information about the Company’s position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Provisions, Contingent Assets and Liabilities**

*i) Provisions*

Provisions are recognized 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.

*ii) Contingent Assets and Liabilities*

Contingent liabilities are not recognized in the financial statements. They are disclosed only, unless the possibility of an outflow of resources embodying economic benefits is probable. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

**Related Parties**

Parties are considered related when one party either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties also include individuals that are shareholders, members of the Company's management and employees. Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged.

**Leases**

*Financial Leases*

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

*Operating Leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

**Statement of Cash Flows**

Cash and cash equivalents presented in the statements of cash flow comprise cash on hand, cash at banks, checks and marketable securities with maturities three months or less.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**4. CASH AND CASH EQUIVALENTS**

	<b>December 31, 2005</b>	December 31, 2004
Cash	<b>5.628</b>	6.168
Checks received	<b>8.205.764</b>	2.045.651
Cash at bank - demand deposit	<b>4.448.354</b>	5.529.931
	<b>12.659.746</b>	7.581.750

As of December 31, 2005 and 2004, the Company does not have any time deposits at banks.

As of December 31, 2005 and 2004, there is not any blockage over cash and cash equivalents.

**5. MARKETABLE SECURITIES, net**

None (December 31, 2004 - None).

**6. FINANCIAL LIABILITIES, net**

	<b>December 31, 2005</b>			<b>December 31, 2004</b>		
	<b>Interest Rate</b>	<b>Maturity</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>Amount</b>
<b>Short Term</b>						
<b>Export Loans</b>	12% - 15%	January 3, 2006 - May 22 2006	10.864.001	17%-21%	January 3, 2005 - June 27, 2005	11.502.226
<b>Import Loans</b>	13,5% - 14,5%	-	12.664.000	-	-	-
	Euribor+0,8	September 16, 2006	2.081.978	20,25%	-	4.790.000
	Libor+0,85	February 20, 2006	6.717.889	-	-	-
	Euribor+0,6	February 22, 2006	7.942.898	-	-	-
<b>Working Capital Loans</b>	-	-	-	-	-	566.246
<b>Bank Overdrafts</b>	-	-	9.505.121	-	-	3.915.575
			<b>49.775.887</b>			<b>20.774.047</b>
<b>Long Term</b>						
	Euribor+1,1	April 20, 2007	4.793.045	-	-	-
	Euribor+1,6	February 20, 2006	11.264.301	5,5%	July 5, 2005	4.127.797
	Euribor+0,95	March 23, 2007	4.003.708	Libor+1,6	February 20, 2006	12.966.617
	Euribor+2	November 24, 2010	11.962.186	-	-	-
			<b>32.023.240</b>			<b>17.094.414</b>
<b>Current portion of long term borrowings</b>			<b>(11.385.740)</b>			<b>(4.306.814)</b>
			<b>20.637.500</b>			<b>12.787.600</b>

As of December 31, 2005, the Company has an amount of YTL 4.790.000 rotative loan and YTL 550.000 export loan borrowed from Yapı ve Kredi Bankası A.Ş.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**6. FINANCIAL LIABILITIES, net (continued)**

As of December 31, 2005, repayment schedule for long term financial liabilities are as follows:

	<b>December 31, 2005</b>	December 31, 2004
2005	-	4.306.814
2006	<b>11.385.740</b>	12.787.600
2007	<b>10.432.169</b>	-
2008	<b>3.401.777</b>	-
2009	<b>3.401.777</b>	-
2010	<b>3.401.777</b>	-
	<b>32.023.240</b>	17.094.414
Less : short term portion of long term financial liabilities	<b>(11.385.740)</b>	(4.306.814)
	<b>20.637.500</b>	12.787.600

**7. TRADE RECEIVABLES AND PAYABLES, net**

**a) Trade receivables**

	<b>December 31, 2005</b>	December 31, 2004
Account receivables	<b>88.414.433</b>	81.455.137
Notes receivables and post-dated checks	<b>131.761.071</b>	120.038.711
	<b>220.175.504</b>	201.493.848
Less : Allowance for doubtful receivables	<b>(4.359.496)</b>	(4.255.428)
	<b>215.816.008</b>	197.238.420

As of December 31, 2005 and 2004, the Company does not have any long-term trade receivables.

**b) Trade payables**

	<b>December 31, 2005</b>	December 31, 2004
Accounts payables	<b>21.651.138</b>	26.328.970
Notes payables	<b>84.693.960</b>	43.817.821
	<b>106.345.098</b>	70.146.791

As of December 31, 2005 and 2004, the Company does not have any long-term trade payables.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**8. FINANCE LEASE RECEIVABLES AND OBLIGATIONS, net**

As of December 31, 2005, the Company does not have any short or long-term financial lease receivables. (December 31, 2004 - None).

As of December 31, 2005 the Company has YTL 107.306 short term finance lease obligations to Koç Finansal Kiralama A.Ş. and YTL 114.093 long -term finance lease obligations of which the maturity is until October 2007 (December 31, 2004 - None).

**9. DUE FROM AND TO RELATED PARTIES**

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. For the purpose of these financial statements, balance with the associates, investors, shareholders and their affiliates are shown separately and such companies are referred to as "related parties".

**a) Due from related parties**

<b>Related parties</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
Kofisa Trading Company S.A.	<b>3.921.934</b>	-
Arçelik A.Ş.	<b>2.811.387</b>	2.475.553
Demiladi	<b>1.435.927</b>	1.592.973
Migros Türk T.A.Ş.	<b>1.035.955</b>	681.236
Akpa Dayanıklı Tüketim A.Ş. LPG ve Akaryakıt Ürünleri Pazarlama A.Ş. (Akpa)	<b>652.109</b>	342.848
Ram Trading	<b>247.749</b>	-
Chung Mei Industries Limited	<b>75.132</b>	265.329
Otokoç Otomotiv Tic. Ve San. A.Ş. (Otokoç)	<b>12.690</b>	-
Ramerica	<b>3.624</b>	34.856
Koçtaş Yapı Malzemeleri Ticaret A.Ş.	-	101.707
Other	-	1.454
	<b>10.196.507</b>	5.495.956
Less: Allowance for unearned interest income	<b>(45.297)</b>	(26.062)
	<b>10.151.210</b>	5.469.894

As of December 31, 2005, the Company does not have any long-term trade receivables from related parties (December 31, 2004 - None).

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**9. DUE FROM AND TO RELATED PARTIES (continued)**

**b) Due to related parties**  
*Short-term financial borrowings*

<b>Related parties</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
<b>Others</b>		
Koç Faktoring Hizmetleri A.Ş.	18.968.595	62.707.331
Yapı Kredi Faktoring A.Ş.	12.641.225	-
Beko Plc	6.101.221	6.876.466
Kofisa Trading Company S.A.	5.240.433	-
Koçbank A.Ş.	2.350.800	-
Arçelik A.Ş.	2.114.904	3.127.896
	<b>47.417.178</b>	<b>72.711.693</b>

*Trade payables*

<b>Related parties</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
<b>Shareholders</b>		
Koç Holding A.Ş.	98.325	616.995
<b>Financial Assets</b>		
Ram Dış Ticaret A.Ş.	2.312.767	9.076.397
Entek Elektrik Üretimi A.Ş.	453.573	440.109
<b>Equity Investments</b>		
Chung Mei Industries Ltd.	8.026.499	-
Demiladi	141.330	-
<b>Others</b>		
Beko Ticaret A.Ş.	952.795	1.401.348
Ark İnşaat A.Ş.	703.460	-
Aygaz A.Ş.	345.195	1.153.682
Eltek Elektrik	322.388	328.642
Palmira Turizm Ticaret A.Ş.	261.025	-
Ram Pasific Ltd.	213.353	45.268
Turyat Setur Seyahat Acentesi İşletmeleri A.Ş.	141.022	42.212
Ram Sigorta Aracılık Hizmetleri A.Ş.	130.426	45.054
Koç Sistem A.Ş.	66.597	55.024
Beko UK	39.566	-
Birleşik Oksijen Sanayi Gazlar A.Ş.	55.521	93.770
Düzyey Tüketim Malları Pazarlama A.Ş.	29.519	28.428
Mogaz Petrol Gazları A.Ş.	29.228	59.472
Migros Türk T.A.Ş.	17.898	-
Koçnet Haberleşme Tekn. Ve İletişim Hizm. A.Ş.	17.108	37.216
Koçtaş Yapı Malzemeleri Ticaret A.Ş.	13.811	-
Divan A.Ş.	-	209.126
Kofisa Trading Company S.A.	-	1.982.719
Others	57.465	60.182
	<b>14.428.871</b>	<b>15.675.644</b>
Less : Allowance for unincurred interest expense	<b>(153.469)</b>	<b>(1.773.385)</b>
	<b>14.275.402</b>	<b>13.902.259</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**9. DUE FROM AND TO RELATED PARTIES (continued)**

As of December 31, 2005; the Company has factored checks and notes amounting to YTL 51.602.248 to Koç Faktoring Hizmetleri A.Ş and receivables amounting to YTL 6.756.647. Since those factoring transactions are done as without recourse, the transactions have not been reflected in the balance sheet.

**Long term Payables**

Long term payables due to related parties as of December 31, 2005 and 2004 are composed of borrowings from Beko UK with an interest rate of Libor + 1,6 and maturity on April 30, 2008.

The repayment plan of the long-term borrowings due to related parties as of December 31, 2005 and 2004, is as follows:

	<b>December 31, 2005</b>	December 31, 2004
2005	-	6.876.466
2006	<b>6.101.221</b>	6.634.488
2007	<b>5.953.658</b>	6.634.488
2008	<b>2.976.828</b>	3.317.243
	<b>15.031.707</b>	23.462.685
Current portion of long-term borrowings (*)	<b>(6.101.221)</b>	(6.876.466)
	<b>8.930.486</b>	16.586.219

(\*) Current portion of long term borrowings as of December 31, 2005 and 2004 is stated under short term due to related parties.

**Türk Demir Döküm Fabrikaları Anonim Şirketi****NOTES TO FINANCIAL STATEMENTS (Continued)  
For the period then ended December 31, 2005  
(Currency – Unless otherwise indicated New Turkish Lira (YTL))****9. DUE FROM AND TO RELATED PARTIES (continued)****c) Transactions with related parties**

Related parties	December 31, 2005				
	Sales to related parties			Purchases from related parties	
	Inventories	Service	Fixed asset	Inventories	Service
<b>Shareholders</b>					
Koç Holding A.Ş.	-	-	-	-	1.039.798
<b>Financial assets</b>					
Entek Elektrik Üretim A.Ş.	-	-	-	-	4.150.539
<b>Others</b>					
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	3.302.523	-	-	441	370.326
Aygaz A.Ş.	-	-	-	590.708	-
Arçelik A.Ş.	54.627.834	-	3.547	4.797.786	2.895.365
Ark İnşaat A.Ş.	41.858	-	5.222.224	-	-
Beko Ticaret A.Ş.	-	-	-	546	4.034.755
Beko Plc	-	-	-	-	283.623
Birleşik Oksijen Sanayi A.Ş.	-	-	-	377.944	478.370
Bursa Gaz ve Ticaret A.Ş.	-	-	-	352	122.966
Chung Mei Industries Ltd.	440.430	-	-	-	-
Divan A.Ş.	-	-	-	-	853.607
Düzye Tüketim Malları Pazarlama A.Ş.	-	-	-	-	415.952
Doktaş Ticaret ve San. A.Ş.	-	-	-	-	-
Demiladi	1.666.562	-	-	-	-
Eltek Elektrik	-	-	-	-	1.118.320
Ford Otomotiv Sanayi A.Ş.	4.927	-	-	-	-
Koçbank A.Ş.	61.472	-	-	-	-
Koç Allianz Sigorta A.Ş.	-	-	-	-	19.608
Koç Lease Finansal Kiralama A.Ş.	-	-	53	-	87.773
Koç Sistem A.Ş.	-	-	175.405	812	200.027
Koçtaş Yapı Marketleri San. ve Tic. A.Ş.	2.725.425	-	2.139	-	4.580
Kofisa Trading Company S.A.	11.086.649	-	-	-	-
Migros A.Ş.	7.996.278	-	-	-	32.599
Otokoç Otomotiv A.Ş.	-	-	554	-	47.482
Palmira Turizm Ticaret A.Ş.	-	-	-	-	554.468
Ramerica	-	50.676	-	-	-
Ram Dış Ticaret A.Ş.	-	115.882	-	41.222.194	-
Ram Sigorta Aracılık Hizmetleri A.Ş.	-	-	-	260.085	1.076.349
Sanal Merkez Ticaret A.Ş.	83.785	-	-	-	-
Set Air Hava Taşımacılığı ve Hizm. A.Ş.	-	-	-	-	13.378
Setur Servis Turistik A.Ş.	3.161	-	-	-	-
Set Oto Ticaret ve Turizm A.Ş.	-	-	-	11.776	-
Turyat Setur Seyahat Acentesi İşl. A.Ş.	-	-	3.181	8.311	1.440.187
	<b>82.040.904</b>	<b>166.558</b>	<b>5.407.103</b>	<b>47.270.955</b>	<b>19.240.072</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi****NOTES TO FINANCIAL STATEMENTS (Continued)  
For the period then ended December 31, 2005  
(Currency – Unless otherwise indicated New Turkish Lira (YTL))****9. DUE FROM AND TO RELATED PARTIES (continued)**

Related parties	December 31, 2004			
	Sales to related parties		Purchases from related parties	
	Inventories	Fixed asset	Inventories	Service
<b>Shareholders</b>				
Koç Holding A.Ş.	-	-	-	813.269
<b>Financial assets</b>				
Entek Elektrik Üretim A.Ş.	-	-	-	883.424
<b>Others</b>				
Arçelik A.Ş.	43.402.391	-	7.953.444	-
Ark İnşaat A.Ş.	237.118	-	-	-
Aygaz A.Ş.	-	-	4.716.867	-
Beko Ticaret A.Ş.	-	-	-	56.617
Birleşik Oksijen Sanayi Gazlar A.Ş.	-	-	393.150	666.439
Bursa Gaz ve Ticaret A.Ş.	2.449.965	-	92.172	577.877
Divan A.Ş.	-	-	-	1.290.014
Düzye Tüketim Malları Pazarlama A.Ş.	-	-	-	54.643
Doktaş Ticaret ve San. A.Ş.	-	-	392.171	-
Eltek Elektrik	-	50.510	-	587.598
Ford Otomotiv Sanayi A.Ş.	8.054	-	-	-
İzocam Ticaret ve Sanayi A.Ş.	-	-	-	104.010
Koç Allianz Sigorta T.A.Ş.	-	-	-	10.427
Koç Finansal Kiralama A.Ş.	-	-	-	164.393
Koç Sistem A.Ş.	-	-	-	597.993
Koçnet Haberleşme Tekn. Ve İletişim Hizm. A.Ş.	-	-	-	44.501
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	1.848.317	-	-	10.653
Migros Türk T.A.Ş.	3.529.892	-	13.938	1.544
Mogaz Petrol Gazları A.Ş.	-	-	127.203	-
Otlaş	-	-	-	991
Otokoç Otomotiv Tic. Ve San. A.Ş.	-	-	-	8.171
Ram Dış Ticaret A.Ş.	-	-	43.174.317	-
Ram Sigorta Aracılık Hizmetleri A.Ş.	-	-	-	339.346
Siemens	-	-	106.473	6.323
Set Air Hava Taşımacılığı ve Hizm. A.Ş.	-	-	-	42.184
Turyat Setur Seyahat Acentesi İşl.A.Ş.	-	-	-	1.282.669
Zinerji Enerji San. Ve Tic.A. Ş.	-	-	-	168.015
	<b>51.475.737</b>	<b>50.510</b>	<b>56.969.735</b>	<b>7.711.101</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**9. DUE FROM AND TO RELATED PARTIES (continued)**

**d) Others**

	<b>December 31, 2005</b>	December 31, 2004
Counter guarantees given in favour of Ram Dış Ticaret A.Ş. and Migros A.Ş.	-	8.052.600
Bank deposits at Koçbank	<b>2.120.111</b>	1.393.036
Bank deposits at Yapı Kredi Bankası A.Ş.	<b>53.249</b>	-
Loan obtained from KFSH	-	4.790.000
Interest expenses charged by Koç Faktoring	<b>8.007.553</b>	7.841.734
Interest expenses charged by Yapı Kredi Faktoring	<b>80.252</b>	-
Donations to Vehbi Koç Vakfı	<b>1.150.000</b>	-
Advertising expenses charged by Arçelik	<b>1.055.919</b>	983.975
Marketing expenses charged by Beko	-	2.203.646
Counter guarantees given in favour of Ram Pacific	<b>13.418.000</b>	-
Interest expense charged by Beko Plc	<b>1.139.790</b>	1.215.606
Koçbank forward expense	-	418.044
Loan obtained from Yapı Kredi Bankası A.Ş.	<b>5.340.000</b>	-

As of December 31, 2005 the Company has obtained dividend income amounting to YTL 223.980 (December 31, 2004 - YTL 576.771) from Entek and YTL 45.180 from Kumsan (December 31, 2004 - YTL 39.218).

As of December 31, 2005 financing expenses paid to Koçbank A.Ş. and Yapı ve Kredi Bankası A.Ş. are YTL 4.895.504 (December 31, 2004 - YTL 1.951.843) and YTL 1.189.880 respectively (December 31, 2004 - None).

**10. OTHER RECEIVABLES AND LIABILITIES, net**

Breakdown of other receivables as of December 31, 2005 and 2004 is as follows:

	<b>December 31, 2005</b>	December 31, 2004
Due from employees	<b>77.191</b>	83.037
Advances given	-	956.115
	<b>77.191</b>	1.039.152

As of December 31, 2005 and 2004, the Company does not have any short or long-term other financial liabilities.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**10. OTHER RECEIVABLES AND LIABILITIES, net (continued)**

Breakdown of other liabilities as of December 31, 2005 and 2004 is as follows:

	<b>December 31, 2005</b>	December 31, 2004
Taxes and duties payable	<b>4.850.970</b>	2.427.991
Due to employees	<b>4.721.692</b>	2.568.255
Value added tax	<b>1.180.074</b>	879.873
Other short term liabilities	<b>75.497</b>	64.974
Forward expense accrual	-	418.044
	<b>10.828.233</b>	6.359.137

As of December 31, 2005 and 2004 the Company does not have any long term other liabilities.

**11. LIVE STOCK, net**

None (December 31, 2004 - None).

**12. INVENTORIES**

	<b>December 31, 2005</b>	December 31, 2004
Raw materials	<b>24.421.774</b>	30.159.290
Work-in-process	<b>4.078.634</b>	3.697.162
Semi-finished goods	<b>7.605.734</b>	6.069.012
Finished goods	<b>35.836.717</b>	26.844.269
Merchandise	<b>8.978.348</b>	2.767.960
Goods in transit	<b>16.844.263</b>	5.394.878
Advances for purchase orders	<b>3.559.869</b>	3.927.403
	<b>101.325.339</b>	78.859.974
Less : Provisions for loss on inventories (Finished goods)	<b>(172.264)</b>	-
	<b>101.153.075</b>	78.859.974

**13. COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS AND BILLINGS IN EXCESS OF COST AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS, NET**

None (December 31, 2004 - None).

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**14. DEFERRED TAX ASSETS AND LIABILITIES**

As of December 31, 2005 and 2004, distribution of deferred tax (liability)/asset calculated over temporary differences subject to deferred tax and effective tax rates is summarized below:

	Cumulative Temporary Differences		Deferred Tax (Liability)/Asset	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Net temporary difference between the tax base and the carrying value of the property, plant and equipment	88.570	(2.070.113)	26.571	(621.034)
Provision for employee termination benefits	6.400.992	5.510.820	1.920.298	1.653.246
Allowance for unrealized interest expense	(10.432.405)	(8.964.761)	(3.129.722)	(2.689.428)
Allowance for unearned interest income	3.985.906	8.132.356	1.195.772	2.439.707
Temporary differences arising from inventory	780.437	308.602	234.131	92.580
Forward expense accrual	-	418.044	-	125.413
Provisions	4.864.852	4.485.267	1.459.456	1.345.580
Other	858.190	133.297	257.457	39.989
	<b>6.546.542</b>	<b>7.953.512</b>	<b>1.963.963</b>	<b>2.386.053</b>

As of December 31, 2005 and 2004 deferred tax in consolidated financial statements is as follows:

	Deferred Tax	
	December 31, 2005	December 31, 2004
Deferred tax asset	2.452.318	2.903.136
Deferred tax liability	(488.355)	(517.083)
	<b>1.963.963</b>	<b>2.386.053</b>

The movement of deferred tax as of December 31, 2005 and 2004 is as follows:

	December 31, 2005	December 31, 2004
At January 1	2.386.053	647.643
Deferred tax benefit (expense)	(410.869)	1.752.970
Currency translation difference	(11.221)	64.177
Monetary loss	-	(78.737)
	<b>1.963.963</b>	<b>2.386.053</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**15. OTHER CURRENT AND NON CURRENT ASSETS**

	<b>December 31, 2005</b>	December 31, 2004
VAT deductible	<b>6.359.874</b>	7.546
VAT receivable	<b>3.926.139</b>	3.092.930
Prepaid tax	<b>1.304.033</b>	814.072
Prepaid expenses	<b>962.322</b>	428.845
Job advances	<b>9.004</b>	-
Other	-	61.250
	<b>12.561.372</b>	4.404.643

As of December 31, 2004, YTL 2.045 in other non current assets is composed of long-term guarantees.

**16. FINANCIAL ASSETS, net**

**a) Investments available for sale**

Breakdown of investments available for sale as of December 31, 2005 and 2004 is as follows:

	<b>December 31, 2005</b>		December 31, 2004	
	<b>Participation Percentage (%)</b>	<b>YTL</b>	Participation Percentage (%)	YTL
Koç Finansal Hizmetler A.Ş. (KFH)	<b>0,38</b>	<b>24.969.641</b>	0,38	6.439.535
Ram Dış Ticaret A.Ş.	<b>10,00</b>	<b>5.758.423</b>	10,00	5.733.890
Entek Elektrik Üretimi A.Ş. (Entek)	<b>3,73</b>	<b>8.289.925</b>	3,73	5.375.226
Isı Sanayii Araştırma ve Geliştirme A.Ş.	<b>5,00</b>	<b>8.217</b>	5,00	8.217
		<b>39.026.206</b>		17.556.868
Less : Provision for impairment (KFH)		<b>(1.005.092)</b>		(1.005.092)
		<b>38.021.114</b>		16.551.776

As of December 31, 2005, the investment amounts in the above companies (except Entek and KFH) are carried at restated cost since their fair value could not be measured reliably.

KFH and Entek, which are classified as investments available for sale as of December 31, 2005 are carried at their fair value in accordance with the appraisal reports obtained from an independent valuation firm. In this respect, the differences occurred in the book value of the investments available for sale amounting to YTL 2.914.699 and YTL 12.349.977, respectively, are reflected as “Financial assets value increase fund” under shareholders' equity account.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**16. FINANCIAL ASSETS, net**

**b) Equity Investments**

Breakdown of equity investments as of December 31, 2005 and 2004 is as follows:

	December 31, 2005		December 31, 2004	
	Participation Percentage (%)	YTL	Participation Percentage (%)	YTL
Kumsan Döküm Malzemeleri Sanayi ve Ticaret A.Ş.	25,14	873.086	25,14	873.086
Chung Mei	45,00	1.754.891	45,00	1.529.154
Demiladi	60,00	202.933	60,00	202.933
		<b>2.830.910</b>		<b>2.605.173</b>

**17. POSITIVE GOODWILL, net**

Goodwill, as of December 31, 2005 and 2004 aroused from the purchase of “Heatline” business of Beko.

The movement of goodwill for December 31, 2005 and 2004 as follows:

	December 31, 2005	December 31, 2004
Beginning net book value	4.869.586	5.626.386
Less : Accumulated amortization	-	(270.007)
Currency translation reserve	(499.717)	(486.793)
	<b>4.369.869</b>	<b>4.869.586</b>

**18. INVESTMENT PROPERTY, net**

None (December 31, 2004 - None).

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**19. PROPERTY, PLANT AND EQUIPMENT, net**

The movement of property, plant and equipment for the period ended December 31, 2005 is as follows:

	January 1, 2005	Transfers	Additions	Disposals	Currency Translation	December 31, 2005
<b>Cost</b>						
Land and land improvements	3.380.881	-	4.137	-	-	<b>3.385.018</b>
Buildings	46.684.314	2.068.904	169.568	-	-	<b>48.922.786</b>
Machinery, installations and equipment	149.031.075	6.596.983	3.158.587	(213.895)	(64.910)	<b>158.507.840</b>
Motor vehicles	1.630.779	-	637.258	(574.745)	(84.790)	<b>1.608.502</b>
Furniture and fixtures	8.483.659	9.055	490.753	-	(48.795)	<b>8.934.672</b>
Leasehold improvements	154.262	-	-	-	-	<b>154.262</b>
Advances given	289.953	-	-	-	-	<b>289.953</b>
Construction in progress	1.985.895	(8.674.942)	17.428.792	-	-	<b>10.739.745</b>
	<b>211.640.818</b>	-	<b>21.889.095</b>	<b>(788.640)</b>	<b>(198.495)</b>	<b>232.542.778</b>
Land and land improvements	(1.766.617)	-	(79.881)	-	-	<b>(1.846.498)</b>
Buildings	(26.608.510)	-	(1.807.936)	-	-	<b>(28.416.446)</b>
Machinery, installations and equipment	(118.347.999)	-	(8.427.968)	213.895	28.986	<b>(126.533.086)</b>
Motor vehicles	(703.827)	-	(306.620)	269.670	18.423	<b>(722.354)</b>
Furniture and fixtures	(6.605.678)	-	(708.209)	-	53.505	<b>(7.260.382)</b>
Leasehold improvements	(154.262)	-	-	-	-	<b>(154.262)</b>
	<b>(154.186.893)</b>	-	<b>(11.330.614)</b>	<b>483.565</b>	<b>100.914</b>	<b>(164.933.028)</b>
<b>Property, plant and equipment, net</b>	<b>57.453.925</b>	-	<b>10.558.481</b>	<b>(305.075)</b>	<b>(97.581)</b>	<b>67.609.750</b>

The Company has purchased machinery park of Schaeffer Panel Radiator production plant in Germany, FIX brand name and customer portfolio of Schaeffer regarding to the agreement signed with Schaeffer Werke KG on August 31, 2005. The amount of this purchase agreement is Euro 8.500.000 and some part of the fixed assets subject to the purchase agreement have been arrived to Bozüyük plant as of December 31, 2005.

YTL 4.290.267 in construction in progress account is the amount purchased in accordance with the agreement. The first installment amounting to Euro 1.100.000 for the machinery and equipment, has already been paid and the other part amounting to Euro 1.325.000 is accounted in trade payables account.

Repayment plan of the agreement is as follows:

<b>Maturity</b>	<b>Foreign Currency Type</b>	<b>Foreign Currency Amount</b>	<b>YTL Amount</b>
September 30, 2005	EURO	1.100.000	1.746.250
March 15, 2006	EURO	1.666.666	2.645.832
December 15, 2006	EURO	1.188.888	1.887.360
December 15, 2007	EURO	2.276.890	3.614.563
December 15, 2008	EURO	2.267.556	3.599.745
		<b>8.500.000</b>	<b>13.493.750</b>

Furthermore, the Company has purchased the inventory amounting to YTL 2.537.931 from Schaeffer as of December 31, 2005 with the invoice amounting to Euro 1.598.697 and recorded them as goods in transit in financial statements (Note 12).

**Türk Demir Döküm Fabrikaları Anonim Şirketi****NOTES TO FINANCIAL STATEMENTS (Continued)****For the period then ended December 31, 2005****(Currency – Unless otherwise indicated New Turkish Lira (YTL))****19. PROPERTY, PLANT AND EQUIPMENT, net (continued)**

As of December 31, 2005, no study has been performed to determine the fair values of FIX brandname and fixed assets purchased from Schaeffer Company. Hence, as of December 31, 2005, the necessary adjustments have not been made in accordance with IFRS 3 “Business Combinations”, however the Company will complete valuation work for this purchase agreement in compliance with IFRS 3 in a one year period and also reflect the possible effects of this valuation to the financial statements.

	January 1, 2004	Transfers	Additions	Disposals	Currency Translation	Restatement effect of fully depreciated assets	December 31, 2004
<b>Cost</b>							
Land and land improvements	3.428.146	-	-	-	-	(47.265)	3.380.881
Buildings	46.384.495	746.614	130.047	(105.533)	-	(471.309)	46.684.314
Machinery, installations and equipment	150.055.046	4.340.421	3.924.689	(265.570)	(37.990)	(8.985.521)	149.031.075
Motor vehicles	1.646.385	-	435.768	(387.004)	(54.667)	(9.703)	1.630.779
Furniture and fixtures	8.270.518	349.322	627.073	(67.620)	(44.799)	(650.835)	8.483.659
Leasehold improvements	175.612	-	-	-	-	(21.350)	154.262
Advances given and constructions in progress	1.459.768	(5.436.357)	6.252.437	-	-	-	2.275.848
<b>Total</b>	<b>211.419.970</b>	<b>-</b>	<b>11.370.014</b>	<b>(825.727)</b>	<b>(137.456)</b>	<b>(10.185.983)</b>	<b>211.640.818</b>
<b>Less: acc. depreciation</b>							
Land and land improvements	(1.728.226)	-	(85.656)	-	-	47.265	(1.766.617)
Buildings	(25.373.666)	-	(1.713.739)	7.586	-	471.309	(26.608.510)
Machinery, installations and equipment	(117.901.069)	-	(9.694.640)	253.773	8.416	8.985.521	(118.347.999)
Motor vehicles	(434.993)	-	(420.158)	132.327	9.294	9.703	(703.827)
Furniture and fixtures	(6.679.998)	-	(600.303)	13.524	10.264	650.835	(6.605.678)
Leasehold improvements	(175.612)	-	-	-	-	21.350	(154.262)
<b>Total</b>	<b>(152.293.564)</b>	<b>-</b>	<b>(12.514.496)</b>	<b>407.210</b>	<b>27.974</b>	<b>10.185.983</b>	<b>(154.186.893)</b>
<b>Property, plant and equipment, net</b>	<b>59.126.406</b>	<b>-</b>	<b>(1.144.482)</b>	<b>(418.517)</b>	<b>(109.482)</b>	<b>-</b>	<b>57.453.925</b>

As of December 31, 2005, there are motor vehicles amounting to YTL 190.257 purchased through financial leasing within motor vehicles account.

	<b>December 31, 2005</b>	December 31, 2004
The gross value of the fully depreciated tangible assets which are still in use	<b>105.494.099</b>	101.697.075

**20. INTANGIBLES, net**

The movement of intangibles as of December 31, 2005 and 2004 is as follows:

	December 31, 2004	Additions	Disposals	December 31, 2005
<b>Cost</b>				
Rights	1.746.654	269.525	-	<b>2.016.179</b>
<b>Less: Accumulated amortization</b>				
Rights	(1.086.216)	(345.881)	-	<b>(1.432.097)</b>
<b>Net Book Value</b>	<b>660.438</b>	<b>(76.356)</b>	<b>-</b>	<b>584.082</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**20. INTANGIBLES, net (continued)**

	December 31, 2003	Additions	Disposals	December 31, 2004
Cost				
Rights	1.873.751	103.536	(230.633)	1.746.654
Less: Accumulated amortization				
Rights	(995.755)	(321.094)	230.633	(1.086.216)
<b>Net Book Value</b>	<b>877.996</b>	<b>(217.558)</b>	<b>-</b>	<b>660.438</b>

**21. ADVANCES TAKEN, net**

The Company has notes receivables amounting to YTL 4.990.642 as advances taken from customers as of December 31, 2005 (December 31, 2004 - YTL 3.149.042).

**22. EMPLOYEE PENSION PLANS**

As of December 31, 2005 and 2004, the Company does not have any employee pension plans.

**23. PROVISIONS**

**a) Short Term Provisions**

Provisions as of December 31, 2005 and 2004 are summarized as follows:

**Tax Provision**

Breakdown of corporate tax payable as of December 31, 2005 and 2004 is as follows:

	<b>December 31, 2005</b>	December 31, 2004
Corporate tax payable	<b>12.651.470</b>	10.188.006
Prepaid tax	<b>(12.579.597)</b>	(9.003.388)
Currency translation differences	<b>(7.765)</b>	-
	<b>64.108</b>	1.184.618

**Other provisions**

	<b>December 31, 2005</b>	December 31, 2004
Provision for warranty expense	<b>4.910.145</b>	4.376.305
Provision for contingent liabilities	<b>295.829</b>	195.947
Provision for sales premiums	<b>908.232</b>	-
Other	<b>692.294</b>	14.312
	<b>6.806.500</b>	4.586.564

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**23. PROVISIONS (continued)**

**b) Provision for Employee Termination Benefits**

In accordance with Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee whose employment is terminated due to the retirement after 25 years of service (20 years for women) or for reasons such as military obligation or death. Such payments are calculated on the basis of 30 days' pay and limited to a maximum historical YTL 1.727 (December 31, 2004 - YTL 1.575) at December 31, 2005.

The Company accounts for the employee termination benefits by using "Projected Unit Credit Method" in accordance with IAS 19 (Employee Benefits) based on employees' service period and assumptions by professional actuaries and reflects these figures on financial statements. Accordingly, retirement pay provision is set by calculating the present value of the contingent liability up on the retirement of employees. Actuarial assumptions to calculate liabilities as of December 31, 2005 and 2004 are as follows:

	<b>December 31, 2005</b>	December 31, 2004
Discount rate	<b>12%</b>	16%
Expected rates of salary / limit increases	<b>6,175%</b>	10%

The movement of provision for employee termination benefits for the period between January 1, 2005 and December 31, 2005 is as follows:

Balance as of January 1, 2005		5.510.820
Charge for the period		1.802.543
Payments		(912.371)
<b>Balance as of December 31, 2005</b>		<b>6.400.992</b>

**24. MINORITY INTEREST**

Movements of the minority interest during the periods ended December 31, 2005 and December 31, 2004 are as follows :

	<b>December 31, 2005</b>	December 31, 2004
At January 1	<b>2.283.730</b>	3.162.893
Currency translation difference	<b>(345.984)</b>	(311.036)
Share of net gain /(loss) of subsidiaries	<b>1.834.022</b>	(568.127)
	<b>3.771.768</b>	2.283.730

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**25. SHARE CAPITAL**

The shareholders of the Company and their percentages of ownership as of December 31, 2005 and 2004, are as follows:

	December 31, 2005		December 31, 2004	
	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
Publicly traded and others	15.687.000	%34,86	15.687.000	%34,86
	<b>45.000.000</b>	<b>%100,00</b>	<b>45.000.000</b>	<b>%100,00</b>

As of December 31, 2005 the registered share capital ceiling is YTL 100.000.000 (December 31, 2004 - YTL 100.000.000). As of December 31, 2005 the Company's share capital consists of 4.500.000.000 shares of YTL 0.01 each (December 31, 2004 – 4.500.000.000).

The movement of the share capital (in numbers and in historical YTL) of the Company during 2005 and 2004 is as follows :

	December 31, 2005		December 31, 2004	
	Number	YTL	Number	YTL
January 1	4.500.000.000	45.000.000	4.500.000.000	45.000.000
<b>Balance</b>	<b>4.500.000.000</b>	<b>45.000.000</b>	<b>4.500.000.000</b>	<b>45.000.000</b>

As of December 31, 2004 accumulated losses from December 31, 2003 are offset against net profit of year 2004, legal reserve restatement difference, share premiums and share capital restatement difference, respectively.

As of December 31, 2004, the Company has offset its prior years losses amounting to YTL 116.453.701 by using YTL 7.039 of share premiums and for the remaining YTL 116.446.662 of equity restatement differences. Out of YTL 116.446.662, YTL 60.694.313 was offset against legal reserves restatement difference, YTL 880.501 against share premium restatement and YTL 54.871.848 against share capital restatement difference.

**26. CAPITAL RESERVES**

Share premiums represent 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 share premiums amounting to YTL 7.039 as of December 31, 2005 are offset against the prior year losses and become nil at year end. (December 31, 2004 –YTL 7.039)

As of December 31, 2005, YTL 70.499.320 of equity restatement differences is the restatement differences arising from the restatement of share capital. As of December 31, 2004, YTL 125.371.168, YTL 880.501 and YTL 60.694.313 of equity restatement differences are the restatement differences arising from the restatement of share capital, share premium and legal reserves, respectively.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**27-28. PROFIT RESERVES AND RETAINED EARNINGS**

**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.

Communiqué XI-25 "Communiqué related with Accounting Standards on Capital Market" issued by the CMB 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.

Listed companies are subject to dividend requirements regulated by the CMB as follows:

Based on the CMB Communiqué Serial: XI, No: 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. In addition to that, the amount followed under "Prior Year Losses" account may be offset against period income and retained earnings if exists, and the remaining losses against general reserves, legal reserves and equity restatement differences, respectively.

Effective from January 1, 2004, in line with Communiqué X1-25, based on the profits calculated in accordance with IFRS financial statements, appropriation of 30% of the distributable profit is obligatory (2004 - 30%). 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. In addition, listed companies subject to CMB regulations can not distribute more than the net distributable profit stated in their financial statements prepared in accordance with Turkish Commercial code and Tax legislation.

The Company's share premiums in statutory books, legal reserves and accumulated profits (loss) as of December 31, 2005 and 2004 can be summarized as follows:

	<b>December 31, 2005</b>	December 31, 2004
Share premiums	<b>7.039</b>	569.232
Legal reserves	<b>4.611.451</b>	35.765.893
General reserves	<b>43.545.263</b>	40.543.243

**Dividends**

Dividend that has been declared and approved for the year 2004 is as follows:

	2004
<b>Share</b>	
Nominal value per share, gross	0,33 YTL

The Company determined the profit appropriation of the year 2004 as YTL 15.000.000 in the General Shareholders Assembly meeting that held at April 5, 2005.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**27-28. PROFIT RESERVES AND RETAINED EARNINGS (continued)**

Based on the TCMB decision dated February 25, 2005 numbered 7/242;

- a) As of December 31, 2005, the Company's net distributable profit which is calculated by using the minimum profit distribution policy of CMB, over the net distributable profit realized in accordance with CMB regulations, can be totally provided by the net distributable profit in the statutory books of the Company.
- b) On the condition that, the consolidated subsidiary, joint venture and investments under CMB Communiqué XI: 21 and XI:25, have decided to distribute profit in the general assembly meetings and considering the profit of such entities based on their financial statements prepared in accordance with such regulations, which is reflected to the consolidated financial statements of the parent company, as the maximum limit, than in line with profit distribution decision of general assemblies, the profit of such entities reflected to the parent company is required to be considered in the distributable profit of the parent company.

As of December 31, 2005, Entek and KFH which are classified in investments available for sale, are carried at its fair values in accordance with the appraisal report obtained from an independent firm. Accordingly, the differences amounting to YTL 2.914.699 and YTL 12.349.977 between the carrying value and the fair value of these financial assets respectively are reflected in the financial assets value increase fund account under shareholders' equity account.

**29. FOREIGN CURRENCY POSITION**

ASSETS	December 31, 2005		
	Currency Type	Foreign currency amount	YTL
<b>Cash and cash equivalents</b>	EUR	1.252.989	1.989.121
	GBP	102.844	237.785
	USD	421.694	565.829
	CHF	1.093	1.113
			<b>2.793.848</b>
<b>Trade receivables</b>	EUR	15.960.129	25.336.704
	GBP	6.147.281	14.213.128
	USD	2.740.382	3.677.045
			<b>43.226.877</b>
<b>Due from related parties</b>	EUR	2.563.340	4.069.302
	USD	1.264.404	1.696.577
			<b>5.765.879</b>
<b>Other current assets</b>	EUR	78.354	124.386
	GBP	823.318	1.903.594
	USD	6.957	9.334
			<b>2.037.314</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**29. FOREIGN CURRENCY POSITION (continued)**

LIABILITIES	December 31, 2005		
	Currency Type	Foreign currency amount	YTL
Financial borrowings (short term)	EUR	(6.970.369)	(11.065.461)
	GBP	(3.610.745)	(8.348.404)
	USD	(5.006.625)	(6.717.889)
			<b>(26.131.754)</b>
Current portion of long-term borrowings	EUR	(7.172.120)	(11.385.740)
			<b>(11.385.740)</b>
Due to related parties (short term)	EUR	(6.258.104)	(9.934.741)
	GBP	(9.576.613)	(22.142.087)
	USD	(7.334.533)	(9.841.476)
			<b>(41.918.304)</b>
Finance lease obligations (short term)	EUR	(17.601)	(27.942)
	GBP	(5.144)	(11.893)
			<b>(39.835)</b>
Trade payables	EUR	(2.231.635)	(3.542.721)
	GBP	(1.749.720)	(4.045.528)
	USD	(2.940.803)	(3.945.970)
			<b>(11.534.219)</b>
Financial borrowings (long term)	EUR	(13.000.000)	(20.637.500)
			<b>(20.637.500)</b>
Finance lease obligations (long term)	EUR	(3.186)	(5.058)
	GBP	(15.827)	(36.594)
			<b>(41.652)</b>
Due to related parties (long term)	GBP	(3.862.500)	(8.930.486)
			<b>(8.930.486)</b>
	EUR	(15.798.203)	(25.079.650)
	GBP	(11.747.106)	(27.160.485)
	USD	(10.848.524)	(14.556.550)
	CHF	1.093	1.113
Net			<b>(66.795.572)</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**29. FOREIGN CURRENCY POSITION (continued)**

ASSETS	December 31, 2004		
	Currency Type	Foreign currency amount	YTL
Cash and cash equivalents	EUR	1.564.158	2.857.404
	GBP	463.381	1.193.902
	USD	339.312	455.391
			4.506.697
Trade Receivables	EUR	9.976.305	18.224.714
	GBP	3.729.199	9.608.281
	USD	4.293.706	5.762.583
			33.595.578
Due from related parties	EUR	140.775	257.168
	USD	1.218.978	1.635.990
			1.893.158
LIABILITIES	Currency Type	Foreign currency amount	YTL
Financial borrowings (short term)	EUR	(7.019.941)	(12.824.028)
	GBP	(5.329.696)	(13.731.963)
	USD	(913.690)	(1.226.263)
			(27.782.254)
Current portion of long-term borrowings	EUR	(97.995)	(179.017)
	USD	(3.075.625)	(4.127.797)
			(4.306.814)
Trade payables	EUR	(338.525)	(618.417)
	GBP	(1.744.901)	(4.495.738)
	USD	(5.583.703)	(7.493.888)
			(12.608.043)
Due to related parties (short and long-term)	EUR	(1.163)	(2.125)
	GBP	(10.279.163)	(26.484.261)
	USD	(8.697.455)	(11.672.854)
			(38.159.240)
Financial borrowings (long term)	EUR	(7.000.000)	(12.787.600)
			(12.787.600)
	EUR	(2.776.385)	(5.071.901)
	GBP	(13.161.180)	(33.909.779)
	USD	(12.418.476)	(16.666.838)
Net			(55.648.518)

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**30. GOVERNMENT INCENTIVES**

**Investment incentives**

The Company has various investment incentives related with its capital expenditures. In 2005, the Company has YTL 6.493.194 (December 31, 2004 - YTL 3.378.414) of utilized investment incentives and no deferred (December 31, 2004 - None) investment incentives.

**31. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

- a) As of December 31, 2005 total amount of guarantee letters given by the Company to the government authorities is YTL 40.576.587 (December 31, 2004 - YTL 20.851.642)
- b) As of December 31, 2005, there is a counter guarantee given by the Company in favour of Ram Pacific Ltd for its borrowing from Ranobank International in Hong Kong; which is amounting to USD 10.000.000 and maturity is December 31, 2006 (December 31, 2004 -USD 6.000.000).
- c) As of December 31, 2005, the lawsuits filed against the Company amounting to a total of approximately YTL 1.228.943 (December 31, 2004 - YTL 1.297.187). The Company has provided provisions amounting to YTL 168.663 (December 31, 2004 - YTL 195.947). 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 165.312. For the remaining portion of YTL 1.063.631, the Company provided reserves amounting to YTL 3.351. 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 and waits for the approval of Appeal Court. Management believes that no material adverse outcome will result from these litigations accordingly; the Company does not reflect any accrual in the financial statements related with this lawsuit.
- d) The Company has the following obligations related with the long-term loan obtained on April 22, 2005 amounting to EUR 3.000.000.
  - i) The current ratio according to last audited financial statements has not to be less than 1,10
  - ii) The ratio of profit before depreciation, amortization, interest and tax to net sales has not to be less than 10%
  - iii) The ratio of total liabilities to the net value of tangible assets has to be between 1,00 and 2,00
- e) The Company has the following obligations related with the long-term loan obtained on November 24, 2005 amounting to EUR 7.500.000.
  - i) the ratio of consolidated total liabilities to profit before depreciation, amortisation, interest and tax has not to be more than 3.
  - ii) The ratio of total liabilities to the net value of tangible assets should not to be over 1,5
  - iii) The ratio of profit before depreciation, amortization, interest and tax to the interest expenses should not be less than 2.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**31. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)**

f) Financial Instruments

As of December 31, 2005 the Company does not have any forward agreement.

The nominal amount of forward transactions realized through 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
	3.759.578		6.867.997

As of December 31, 2004, the market price of the forward transactions amounting to YTL 418.044 has been reflected as a liability in the other short-term liabilities.

**32. MERGERS AND ACQUISITIONS**

The Company has purchased machinery park of Schaeffer Panel Radiator production plant in Germany, FIX brand name and customer portfolio of Schaeffer regarding to the agreement signed with Schaeffer Werke KG on August 31, 2005. The amount of this purchase agreement is Euro 8.500.000 and some part of the fixed assets subject to the purchase agreement have been arrived to Bozüyük plant as of December 31, 2005.

YTL 4.290.267 in construction in progress account is the amount purchased in accordance with the agreement. The first installment amounting to Euro 1.100.000 for the machinery and equipment, has already been paid and the other part amounting to Euro 1.325.000 is accounted in trade payables account.

Repayment plan of the agreement is as follows:

Maturity	Foreign Currency Type	Foreign Currency Amount	YTL Amount
March 15, 2006	EURO	1.666.666	2.645.832
December 15, 2006	EURO	1.188.888	1.887.360
December 15, 2007	EURO	2.276.890	3.614.563
December 15, 2008	EURO	2.267.556	3.599.745
		7.400.000	11.747.500

Furthermore, the Company has purchased the inventory from Schaeffer as of December 31, 2005 with the invoice amounting to Euro 1.598.697 and recorded them as goods in transit in financial statements (Note 12).

As of December 31, 2005, no study has been performed to determine the fair values of FIX brandname and fixed assets purchased from Schaeffer Company. Hence, as of December 31, 2005, the necessary adjustments have not been made in accordance with IFRS 3 “Business Combinations”, however the Company will complete valuation work for this purchase agreement in compliance with IFRS 3 in one year period and also reflect the possible effects of this valuation to the financial statements.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**33. SEGMENT REPORTING**

None (December 31, 2004 - None).

**34. SUBSEQUENT EVENTS**

The maximum payment for retirement pay liability per year of employment is increased to YTL 1.770,62 as of January 1, 2006.

**35. DISCONTINUED OPERATIONS**

As of December 31, 2005 and 2004 Company does not have any discontinued operations.

**36. OPERATING INCOME**

**a) Net Sales**

	<b>January 1, 2005- December 31, 2005</b>	January 1, 2004 - December 31, 2004
Domestic Sales	<b>346.658.283</b>	270.002.831
Export Sales	<b>209.339.182</b>	205.459.349
Other Sales	<b>16.025.152</b>	17.017.799
	<b>572.022.617</b>	492.479.979

**b) Cost Of Sales**

	<b>January 1, 2005- December 31, 2005</b>	January 1, 2004 - December 31, 2004
Raw material usage	<b>273.147.982</b>	218.262.856
Direct labor cost	<b>21.877.686</b>	18.172.941
Production overhead	<b>44.408.856</b>	43.725.041
Depreciation expenses	<b>10.512.162</b>	11.064.960
Beginning work-in-process and finished goods	<b>30.541.431</b>	31.618.939
Ending work-in-process and finished goods	<b>(39.743.087)</b>	(30.541.431)
Currency translation differences	<b>(1.360.310)</b>	(1.492.754)
Beginning trade goods	<b>8.836.972</b>	7.191.328
Purchase of trade goods	<b>89.468.790</b>	68.786.303
Ending trade goods	<b>(16.584.082)</b>	(8.836.972)
	<b>421.106.400</b>	357.951.211

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**36. OPERATING INCOME (continued)**

**c) Service income**

None (December 31, 2004 - None).

**d) Other Income From Operational Activities**

None.

**37. OPERATING EXPENSES**

**a) Operating expenses**

	<b>January 1, 2005- December 31, 2005</b>	January 1, 2004 - December 31, 2004
Selling and marketing expenses	<b>54.930.055</b>	42.763.080
General administrative expenses	<b>32.301.871</b>	31.895.566
Service station expenses	<b>3.151.291</b>	2.012.397
Research and development expenses	<b>1.312.874</b>	841.200
	<b>91.696.091</b>	77.512.243

**b) Depreciation and amortization expenses**

	<b>January 1, 2005- December 31, 2005</b>	January 1, 2004 - December 31, 2004
Cost of production	<b>10.512.162</b>	11.064.960
General administrative expenses	<b>1.164.333</b>	2.040.637
	<b>11.676.495</b>	13.105.597

**c) Personnel expenses and average number of employees**

	<b>January 1, 2005- December 31, 2005</b>	January 1, 2004 - December 31, 2004
Wages and salaries	<b>33.364.129</b>	30.702.149
Other social benefits	<b>7.922.878</b>	4.954.000
SSK employee contribution	<b>6.388.127</b>	6.395.567
Provision for employee termination benefits	<b>1.802.543</b>	1.093.061
	<b>49.477.677</b>	43.144.777

The total amount of salaries, premiums or any other benefits paid to executive members of the Company is YTL 7.008.730 for the year ended December 31, 2005 (December 31, 2004 - YTL 5.899.406).

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**38. OTHER OPERATING INCOME/EXPENSE**

**a) Other operating income:**

	<b>January 1, 2005- December 31, 2005</b>	<b>January 1, 2004 - December 31, 2004</b>
Income from previous years	511.885	441.660
Unused allowance	399.024	95.276
Income from insurance premiums	329.567	145.187
Foreign exchange gain	306.881	1.472.905
Dividend received	269.160	615.989
Stock count difference income	266.912	218.278
Income from associates	24.533	-
Profit from fixed asset disposal	16.408	67.449
Others	763.742	690.037
	<b>2.888.112</b>	<b>3.746.781</b>

**b) Other operating expense:**

	<b>January 1, 2005- December 31, 2005</b>	<b>January 1, 2004 - December 31, 2004</b>
Foreign exchange loss	(1.094.009)	(1.370.688)
Provision for doubtful receivables	(305.425)	(904.784)
Stock count differences	(250.934)	(378.031)
Other	(62.421)	(68.395)
Loss from fixed asset disposal	(74.201)	-
	<b>(1.786.990)</b>	<b>(2.721.898)</b>

**39. FINANCIAL EXPENSES**

**a) Financial Income**

	<b>January 1, 2005- December 31, 2005</b>	<b>January 1, 2004 - December 31, 2004</b>
Term difference income related to current year sales	15.916.440	10.445.375
Foreign exchange gain	2.351.383	2.303.361
Interest income	5.044	81.733
	<b>18.272.867</b>	<b>12.830.469</b>

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**39. FINANCIAL EXPENSES (continued)**

**b) Financial Expense**

	<b>January 1, 2005- December 31, 2005</b>	January 1, 2004 - December 31, 2004
Interest expense	<b>(21.876.133)</b>	(20.417.151)
Term difference loss related to current year sales	<b>(6.935.021)</b>	(6.816.087)
Other financing expenses	<b>(3.312.322)</b>	(1.631.666)
Foreign exchange loss	<b>(3.046.663)</b>	(1.750.402)
Forward expense	-	(418.044)
	<b>(35.170.139)</b>	(31.033.350)
<b>Net</b>	<b>(16.897.272)</b>	(18.202.881)

**40. NET MONETARY GAIN / LOSS**

With the decision taken on March 17, 2005 by CMB, inflation accounting is no longer required effective from January 1, 2005; so monetary gain/ loss has not occurred in 2005.

**41. INCOME TAXES**

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

In 2005, the effective corporate tax rate in Turkey is 30% (2004 - 33%). Corporate tax returns are required to be filed until the fifteenth of the fourth month following the year-end and paid in one installment until the end of the related month. The tax legislation provides for a temporary tax of 30% (2004 – 33%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year.

In 2003 and prior years corporation tax was computed on the statutory income tax base determined in accordance with the Tax Procedural Code without any adjustment for inflation accounting. Starting from January 1, 2004, taxable income is derived 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 is not subject to corporation tax and similarly accumulated deficits arising from such application is not 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. In 2005, inflation accounting application for tax purposes was ceased by the Ministry of Finance based on the decline in the inflation rate.

In 2004, corporate tax was computed on inflation adjusted financial statements in accordance with the Tax Procedural Code numbered 5024 issued at December 30, 2003 and it was reflected to the accompanying financial statements accordingly. Due to the fact that the wholesale price index announced related with December 2005 has not been increased more than 100% compared to January 1, 2003 and 10% compared to January 1, 2005 and the two conditions for the inflation correction are not applicable, the inflation correction for year 2005 has not been performed.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the period then ended December 31, 2005**

**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**41. INCOME TAXES (continued)**

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. As of December 31, 2005, the Company does not have accumulated statutory tax loss. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Effective from April 24, 2003, investment allowances provide a deduction from the corporate tax base of 40% of the purchases of the brand-new fixed assets having economic useful life and exceeding YTL 10,000 (2004 - YTL 6,000) 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 the will of the companies. Investment allowances can be carried forward indefinitely.

In Turkey, the tax legislation does not permit a parent company and its subsidiary 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 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.

As of December 31, 2005 and December 31, 2004 the analysis of current period tax charge is as follows:

	<b>December 31, 2005</b>	December 31, 2004
Profit before tax	<b>41.589.954</b>	33.511.549
Corporate tax 30% (2004 - 33%)	<b>(12.476.986)</b>	(11.058.811)
Tax effect of disallowable expenses	<b>(96.340)</b>	(809.523)
Effect of income not subject to tax	<b>449.221</b>	181.182
Investment allowance	<b>1.947.958</b>	1.114.876
Change in tax rate effect	-	179.797
Other	<b>(2.886.192)</b>	1.957.443
Reversal of prior year tax correction	<b>78.968</b>	-
<b>Total tax charge</b>	<b>(12.983.371)</b>	(8.435.036)
- Current	<b>(12.651.470)</b>	(10.188.006)
- Deferred	<b>(410.869)</b>	1.752.970
- Reversal of prior year tax correction	<b>78.968</b>	-
	<b>(12.983.371)</b>	(8.435.036)

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**42. EARNINGS PER SHARE**

Earnings per share are determined by dividing net income / loss by the weighted average number of shares that have been outstanding during the related period concerned.

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 earnings per share 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, 2005.

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.

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**43. CASH FLOW STATEMENT**

	December 31, 2005	December 31, 2004
<b>Cash flows from operating activities</b>		
Profit before income tax and monetary gain (loss)	41.589.954	33.511.549
Adjustments to reconcile net income / (loss) to net cash flows from operating activities:		
Depreciation and amortization	11.676.495	13.105.597
Provision for employee termination benefits (long-term provisions)	1.802.543	1.093.061
Interest expense	21.876.133	20.417.151
Loss on sale of fixed assets	74.201	-
Gain on sale of fixed assets	(16.408)	(67.449)
Net change in foreign currency translation differences	2.156.089	3.197.370
Income from associates	(24.533)	-
Foreign exchange loss / (gain) raised from loans	(2.220.830)	(2.303.361)
<b>Net profit adjusted for non-cash items</b>	<b>76.913.644</b>	<b>68.953.918</b>
<b>Changes in operating assets and liabilities:</b>		
Trade receivables	(18.577.588)	(82.565.311)
Inventories	(22.293.101)	(11.856.270)
Due to / from related parties	(37.258.421)	1.087.578
Trade payables	36.198.308	8.858.452
Taxes paid	(14.175.208)	(12.101.673)
Net change in current and non current assets	(7.664.723)	1.103.889
Net change in provisions	2.219.936	(4.538.138)
Advances taken	1.841.600	(126.778)
Net change in other liabilities	4.887.140	2.656.815
Net change in other receivables	961.961	-
Retirement pay liability paid	(912.371)	(855.763)
<b>Net cash provided by (used in) operating activities</b>	<b>22.141.177</b>	<b>(29.383.281)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(21.667.696)	(11.370.014)
Purchase of intangible assets	(269.525)	(103.536)
Dividends paid	(15.000.000)	-
Cash received from sale of property, plant and equipment	247.282	485.966
Increase in investment available for sale	-	109.999
Net change in minority interest	1.834.022	(568.127)
Share capital increase in investment available for sale	(6.180.128)	-
Capital increase in associates	(225.737)	-
<b>Net cash used in investing activities</b>	<b>(41.261.782)</b>	<b>(11.445.712)</b>
<b>Cash flows from financing activities:</b>		
Repayment of borrowings	(482.261.362)	(233.074.268)
Proceeds from borrowings	528.867.124	264.191.369
Interest payments	(22.407.161)	(20.843.942)
<b>Net cash provided by financing activities</b>	<b>24.198.601</b>	<b>10.273.159</b>
Net effect of monetary gain (loss) on cash transactions in the year	-	14.260.113
<b>Net decrease in cash and cash equivalents</b>	<b>5.077.996</b>	<b>(16.295.721)</b>
Cash and cash equivalents at beginning of year	7.581.750	23.877.471
<b>Cash and cash equivalents at end of year</b>	<b>12.659.746</b>	<b>7.581.750</b>
Cash received by the Company as interest	5.044	81.433
Dividend income received	269.160	615.989

**Türk Demir Döküm Fabrikaları Anonim Şirketi**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the period then ended December 31, 2005**  
**(Currency – Unless otherwise indicated New Turkish Lira (YTL))**

**44. OTHER MATTERS WHICH ARE SIGNIFICANT TO THE FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF INTERPRETATION, TRUE AND FAIR PRESENTATION OF THE FINANCIAL STATEMENTS**

**Additional paragraph for convenience translation to English :**

As of December 31, 2005, the accounting principles described in Notes 2 and 3 (defined as CMB Accounting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board with respect to the application of inflation accounting and the presentation of the basic financial statements and the notes to them. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.