

# 2005 Annual Report

İş Investment

December 2005

The public offering  
of VakıfBank: The  
highest demand  
experienced to  
date... >



The confidence and optimism that comes from stability... Opinions and recommendations on the Chinese economy... A general overview of the economy and capital markets... "Investment instruments are becoming increasingly diverse"... Surprises, disasters and hope... A leader in public offerings... The undisputed leader in derivative transactions... The strength behind the success...



## 06 MESSAGE FROM THE CHAIRMAN

İş Investment maintained its position as Turkey's leading investment and brokerage house during 2005, ranking first among brokerage houses in 2005 in terms of transaction volume on the ISE Stock Market and the Bonds and Bills Market.



## 10 DOMESTIC CAPITAL MARKETS

With an annual yield of 59.29%, the Istanbul Stock Exchange brought smiles to the faces of many investors in 2005 and was the best performing market. The ISE-100 Index began the year at 25,000 and reached 40,000 with a growth trend that got underway in the second half of the year.



## 16 INTERVIEW WITH THE GENERAL MANAGER

"İş Investment handles more public offerings than any other brokerage house in Turkey. Since our establishment, we have successfully completed public offerings for 31 private sector companies and in privatizations for 27 state-owned companies through public offerings.



## 18 INTERNATIONAL MARKETS

German and Japanese markets were more affordable than they were in 2004 in comparison with the US stock markets, prompting investors to direct more funds to those markets in 2005.



## 21 CORPORATE FINANCE

In 2005, nine public offerings were completed in Turkey, generating a total of US\$ 1.7 billion in revenues.



## 26 HUMAN RESOURCES AND TRAINING

Training was provided to 179 employees in 2005. Employees received an average of 19 hours of training and a total of 560 days of training was provided.

# TOP MANAGEMENT

**İLHAMİ KOÇ**  
GENERAL MANAGER

**MURAT KURAL**  
ASSISTANT GENERAL MANAGER

**UFUK ÜMİT ONBAŞI**  
ASSISTANT GENERAL MANAGER

**ERTUĞ YILDIRIMCAN**  
ASSISTANT GENERAL MANAGER



**YİĞİT ARIKÖK**  
MANAGER, DOMESTIC MARKETS

**NURAN AYDINOĞLU**  
MANAGER, BROKERAGE

**ŞÜKRÜ BOZKURT**  
COORDINATOR, SOFTWARE DEVELOPMENT

**EFŞANE ÇAM**  
MANAGER, MERGERS AND ACQUISITIONS

**SERHAT GÜRLEYEN, CFA**  
MANAGER, RESEARCH

**YEŞİM KARAYEL**  
MANAGER, PUBLIC OFFERINGS AND PRIVATIZATION

**ARKIN ŞENGÖNÜL**  
MANAGER, INFORMATION TECHNOLOGY

**BANU TAŞKIN**  
MANAGER, INVESTMENT ADVISORY

**FATMA ÜTÜL**  
MANAGER, OPERATIONS

**ÇAĞLAN YAZICI**  
MANAGER, INTERNATIONAL SALES

**İLKAY DALKILIÇ**  
ASSISTANT MANAGER, INTERNATIONAL CAPITAL MARKETS

**BİGE SARIKADILAR**  
ASSISTANT MANAGER, CORPORATE COMMUNICATIONS

**LEVENT TOKGÖZOĞLU**  
ASSISTANT MANAGER, FINANCIAL AND ADMINISTRATIVE AFFAIRS

**MERİH DERİNSU**  
İZMİR BRANCH MANAGER

**MERT ERDOĞMUŞ**  
KALAMIŞ BRANCH MANAGER

**YEŞİM ÖZDEN**  
ANKARA BRANCH MANAGER

**CENGİZ MACUN**  
REPRESENTATIVE OFFICE, ALMATY, KAZAKHSTAN

## Fundamentals of Investment Strategies for 2006

*The limited inflationary response to the significant growth in the world economy has helped emerging economies start 2006 on an even footing. Strong consumer spending in the US economy and increasing private sector investments in China have been driving global growth. This outlook has been reinforced by indications of a recovery in the European and Japanese economies, but emerging countries will benefit the most in 2006 from the positive developments in global trends.*

*We predict that continued growth in the world economy in 2006 will result in higher commodity prices, particularly for oil. Although there may be an increase in general inflation levels on the back of higher global oil prices, the increase in core inflation looks set to remain limited. Despite an undervalued yuan, the fall in inflation in China (from 2.4% in 2004 to 1.4% in 2005) is a significant factor easing inflationary pressure. Consequently, a significant increase in long-term inflation is not expected for the time being.*

*The fact that inflationary expectations have not risen significantly has kept the increase in long-term interest rates limited, in spite of tight fiscal policies applied by central banks. On the other hand, high demand from Asian economies, with a foreign trade surplus with the United States played a role in keeping long-term interest rates on US government bonds in check. Ongoing increases in short-term interest rates are expected to be limited to 25-50 basis points in the US and 75 points in Europe. Therefore, pressure on global liquidity is expected to gradually ease in the second half of 2006 and the euro is expected to gain value against the US dollar as the gap between US and European interest rates closes somewhat.*

*The current environment appears to be conducive to a continuation of investment in emerging market countries. The transactions (carry trade) of hedge funds investing in the domestic debt instruments of emerging countries, which have been able to borrow at low interest rates, similar to those of developed countries, will bolster the currencies of emerging countries.*

*After reaping the benefits of structural reforms and the application of tight financial and monetary policies, the Turkish economy has reached a point where concerns over public debt dynamics have been reduced, inflationary expectations have dissolved and a sustainable, high growth rate has been achieved. In spite of the reasonable concerns raised over the widening current account deficit, the success achieved in implementing economic measures and the start of negotiations for full EU membership have brought Turkey to the forefront of the global stage and ensured that Turkey attracts a larger share of global capital activity. Meanwhile, the government's sound performance in the privatization program, and its success in raising the amount of direct foreign capital inflow has strengthened mid term expectations for the economy.*

*We do not expect any economic or political developments in 2006 that would have a negative effect on the markets. The government has announced that it will continue to implement a tight fiscal policy and speed up structural reforms in 2006 in accordance with the IMF stand-by agreement. In spite of the current tight fiscal policy, the economy continues to grow at a rate in excess of 5%. A reduction in the state's influence on the financial markets and the explosive growth in foreign capital investment have enabled Turkey to enter an environment of sustainable and significant growth.*

*We do not foresee any developments in the political arena that would disrupt this stability. The positive developments in the Turkish economy and markets have not yet been fully felt by the man on the street. Due to reasons such as demographic factors and lack of productivity, there have been only gradual increases in employment and real wages. Therefore, from an economic standpoint, the only reasonable course of action would be to hold a general election as scheduled in the autumn of 2007. This approach is supported by the fact that the government has chosen to take advantage of the opportunities provided by the improvement in the budget balance to reduce the corporate tax instead of raising spending in a pre-election sweetener to help the ruling party.*

*As an institution that is aware of the structural transformation and its effects on the Turkish economy, we have long chosen to focus our investment strategy on New Turkish Lira instruments. Although we are maintaining this position in 2006, we believe the financial markets, which are currently priced on a "best possible scenario" basis, carry a significant risk of volatility in the event of unexpected foreign events. However, committed implementation to the economic program would ensure that the effect of these fluctuations will be short-term and this will continue to form the backbone of our investment strategy in 2006 as well.*

## KEY FINANCIAL HIGHLIGHTS

### SUMMARY FINANCIAL STATEMENTS

(NEW TURKISH LIRA)

#### BALANCE SHEETS\* (AS OF DECEMBER 31)

Assets	2004	2005
Current Assets	231,076,767	357,526,785
Fixed Assets	17,722,731	14,498,981
<b>Total Assets</b>	<b>248,799,498</b>	<b>372,025,766</b>
<b>Liabilities</b>		
Short-Term Liabilities	38,198,777	109,296,795
Long-Term Liabilities	880,610	737,287
Minority Interest	104,502,957	124,928,895
Shareholders' Equity	105,217,154	137,062,789
<b>Total Liabilities</b>	<b>248,799,498</b>	<b>372,025,766</b>

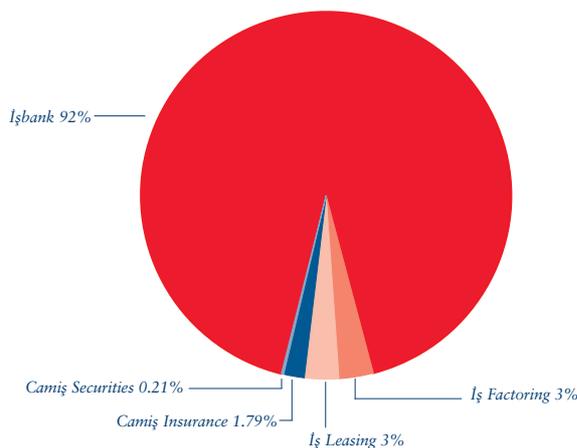
#### INCOME STATEMENT\* (FOR THE YEAR ENDED ON DECEMBER 31, 2005)

	2005
Sales Revenues (Net)	29,019,265,044
Stocks	5,264,904,208
Mutual Funds	67,862,033
Treasury Bills and Government Bonds	23,686,498,803
Cost of Sales	(28,986,283,141)
Service Revenues (Net)	33,668,358
Other Revenues from Core Activities	32,149,799
Gross Core Operational Profit	98,800,060
Operational Expenses (-)	(28,814,705)
Minority Interest Profit	(34,397,157)
Profit before Taxes	33,960,714
Net Profit	26,406,789

\* Financial statements have been prepared in accordance with the standards of the CMB Communiqué 25 Series XI, which conforms to IFRS standards, and have been independently audited.

İşbank, which has always had a significant place in Turkey's capital markets, founded İş Investment at the end of 1996. By the end of 2005, İş Investment's paid-in capital stood at YTL 96.8 million and its consolidated shareholders' equity had reached YTL 137 million.

### Shareholding Structure



Approximately 850 İşbank branches located in industrial, commercial and residential centers all over Turkey operate as İş Investment agencies. İş Investment also has three branches in Ankara, Izmir and İstanbul-Kalamış and one representative office in Almaty, Kazakhstan.

## Products and services sustaining customer satisfaction

**İş Investment offers domestic and international capital market products and services to local and foreign investors under the umbrella of private investment banking services.**

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İş Investment's primary products (stocks, fixed income securities, mutual funds, repos, Eurobonds, security lending transactions and TurkDEX (Turkish Derivatives Exchange transactions, which started in 2005) and primary services (corporate finance, investment advisory and discretionary portfolio management) are offered to capital market participants in a market-focused approach which places emphasis on building and sustaining customer satisfaction.

İş Investment goes beyond traditional brokerage to offer investment advisory services. Each investor is assigned an Investment Advisor who is authorized and experienced in financial markets; investors are also offered guidance in accordance

with the "Investor Centered/Market Focused" service philosophy adopted by İş Investment. Each Investment Advisor evaluates the investor's needs and expectations to help draw up an investment plan based on a realistic risk-return analysis which selects investment instruments from Turkey as well as the global marketplace.

İş Investment gives corporate investors located outside Turkey the opportunity to invest in Turkish markets and also offers a variety of capital market products traded on the international markets to investors receiving Investment Advisory services.

We offer discretionary portfolio management services to those investors who lack the time to monitor their investments and feel a need for professional investment management. Each investor who chooses this service meets a professional Portfolio Manager to identify appropriate comparative criteria for expectations regarding risk and return and will then completely assign the management of the portfolio to İş Investment. Investors have the opportunity to set up Personal Investment Funds.

One of the primary functions of the capital markets is to meet entrepreneurs' capital requirements. Meeting the medium and long-term needs of companies for financing via equity and external financing is the cornerstone of İş Investment's mission. Our corporate finance activities designed for this purpose are organized into six categories: public offerings, privatization

advisory, brokerage services, MBA's, private sector advisory services, private equity and venture capital advisory.

İş Investment performs the most public offerings and offers the markets a large number of instruments. İş Investment has the broadest base of investors, and backed by İşbank's extensive nationwide network of branches, each acting as an agent, the Company stands at the crossroads of supply and demand. Consequently, İş Investment plays an important role in helping Turkey achieve its goal of having developed and effective capital markets.

Individual and corporate investors, both domestic and foreign, receive research analysis reports prepared by İş Investment regarding each and every piece of information which may be pertinent to investors in shaping their investment decisions in the financial markets. Reports that track Istanbul Stock Exchange listed companies, specific industries and macroeconomic and political developments are published in Turkish and English. These reports are also available on our web site for viewing by all Internet users interested in the capital markets.

İş Investment is a founding member of the Turkish Derivatives Exchange (TurkDEX), which entered operation on February 4, 2005. İş Investment is a serious contender in this field, as in other fields of the capital markets, and leads its competitors as the institution with the highest transaction volume.



# İş Investment highlights for the year

## İş Investment in capital markets

- *Once again the leader in the Stock Market with a trading volume of YTL 34 billion*
- *First place among brokerage houses in the Outright Purchases and Sales Market of the Fixed Income Securities Market, with a trading volume of YTL 36 billion*
- *Ranked 13th in the Repo-Reverse Repo Market with a transaction volume of YTL 9 billion*
- *US\$ 2.2 billion of foreign securities transactions in international markets*
- *The highest number of transactions on the Turkish Derivatives Exchange with a YTL 1.5 billion in volume and a 25% share in the market*

## İş Investment in corporate finance

- *A leading brokerage house in the public offering of VakıfBank, one of Turkey's largest public offerings to date*
- *The leader brokerage house in the public offering of BİM-United Stores Inc.*
- *Conclusion of the privatization of Kıbrıs Türk Hava Yolları Ltd. (Cyprus Turkish Airlines) at a value of US\$ 33 million*
- *Provided consultation services for the privatization of Netsel Tourism Investments Inc.*
- *Brokering of the issuance of Alliance Bank's US\$ 200 million Eurobond; Alliance is the fifth largest bank in Kazakhstan's Banking System in terms of capital and sixth in terms of assets*
- *Provided consultation services for the Tepe Group in the sale of Tepe Cinemaxx to Cinemars*

## China Specialist Lardy's conference in Istanbul



China was the focus of İş Investment's third annual Wide Angle (Geniş Açık) meeting, which has been held since 2003. Held on March 28, 2005, at İş Towers, the keynote speaker was Dr. Nicholas Lardy, who serves on the Administrative and Executive Boards of the National Committee on US-China Relations, is a member of the US Council on Foreign Relations and a lecturer at the Institute of International Economics in Washington DC.

Dr. Lardy's books, articles and seminars have made him an internationally accepted authority on China. In the conference, entitled "China, the World and Turkey", Dr. Lardy described how a rapidly changing and growing China affects the global economy and politics along with the opportunities and threats facing Turkey.



Turkey's most admired brokerage institution:  
İş Investment

İş Investment was voted Turkey's Most Admired Brokerage Institution according to the results of the Capital magazine's 6th annual "Report on Turkey's Most Admired Companies", which included the participation of 1,350 top level managers from over 500 companies.

Continued on page 8.

## Capital continues with Wide Angle inserts

İş Investment's specialists continue to evaluate all aspects of current events. The Capital magazine continues to share these quarterly discussions with its readers in Wide Angle inserts. The topics in 2005 were as follows:

- What Changes Will the TurkDEX Bring?
- Opportunities and Threats from the Chinese Market
- A Special Analysis of Mergers and Acquisitions
- Privatization – What Next?



## A professional fund for small investors

Heavily-weighted in stocks, Type-A funds are expected to be the mutual fund of choice for small investors, who find safety in diversity. Investment specialists recommend that investors should choose funds for investment after determining their risk profiles.

### THE BEST TYPE-A FUNDS OVER THE PAST FIVE YEARS

Fund type	Change (%)
Garanti Bank U-100	699.11
Fortis Bank Variable	677.86
Garanti Bank Mixed	645.03
TEB Alarko Private	620.02
İş Investment Variable	607.07
TEB Mixed	564.30
DenizBank Mixed	553.35
Koçbank Allianz Private	473.79
Global Securities Variable	473.64
Nurol Securities Variable	463.32

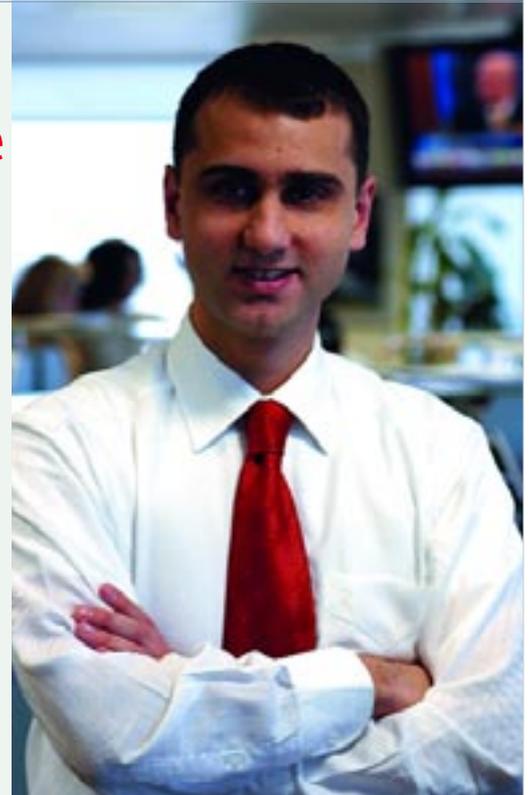
### THE BEST TYPE-B FUNDS OVER THE PAST FIVE YEARS

Fund type	Change (%)
İş Investment Variable	1,117.78
Garanti Securities Bonds	961.07
Ekinciler Variable	890.49
DenizBank Variable Savings	871.83
Oyak Bonds	866.22
Koçbank Bonds	861.80
HSBC Investment Variable	861.40
VakıfBank Variable	845.63
İşbank Variable	841.95
TEB Asset Variable	795.54

These tables cover the dates of January 3, 2000 to December 23, 2005  
Source: [www.fonbul.com](http://www.fonbul.com)

## İş Investment sponsors Ekonomist magazine's TurkDEX-ANALYSIS page

The opening of the Turkish Derivatives Exchange prompted the Ekonomist magazine to create a new two-page section entitled TurkDEX-Analysis. Sponsored by İş Investment, this section includes market assessments from Ömer Hakan Yamaçoğuz, Assistant Director of İş Investment's Domestic Markets. Questions related to this topic sent by readers to [vob@isyatirim.com.tr](mailto:vob@isyatirim.com.tr) are answered by Ömer Hakan Yamaçoğuz.



# Confidence and optimism resulting from stability



**İş Investment remains Turkey's leading investment and brokerage house. We maintained our top position among brokerage houses in 2005 in terms of transaction volume on the ISE's Stock Market and the Bonds and Bills Market.**

After achieving the stability that had been desired for so many years, Turkey is rapidly improving its economy. The achievement of political stability in conjunction with economic stability is crucial for the monetary and capital markets in which we operate, because economic stability is impossible without political stability. Economic instability is tantamount to a derailing of the financial markets. In 2000 and 2001, our country suffered greatly from the crises brought about by this chain of events. Still, every cloud has a silver lining, and I believe all the economic heavy-weights and actors learned their lesson from the events which are still so fresh in our memories.

In 2005, there was a very optimistic atmosphere not only in our country but around the world. These optimistic expectations have continued into 2006. I do not expect any major fluctuation that could affect the markets in the foreseeable future. However, the souring relationship between the US and Iran did make itself felt in international platforms at the end of last year and should be monitored closely. A possible intervention would inevitably shake the markets. Turkey's gaping current account deficit is also a cause for concern. However, the Central Bank has the means to overcome any negative developments, at least in the short-term. Exports continue to break new records. A slowdown in this trend would be a natural



## Board of Directors

**ÖZCAN TÜRKAKIN** CHAIRMAN OF THE BOARD OF DIRECTORS, **RIZA İHSAN KUTLUSOY** VICE CHAIRMAN OF THE BOARD OF DIRECTORS, **İBRAHİM AKAR** MEMBER OF THE BOARD, **BUKET HİMMETOĞLU** MEMBER OF THE BOARD, **F. GÜLİZ AYKAN** MEMBER OF THE BOARD, **A. OĞUZ DİNÇER** MEMBER OF THE BOARD, **SERPİL KILIBOZ** STATUTORY AUDITOR, **GÜRKAN ÖZTOPRAK** STATUTORY AUDITOR.

development. What would be more dangerous would be a significant and abrupt slowdown in exports.

A glance at the markets shows us that the Turkish lira has strengthened against foreign currencies and that returns on lira denominated instruments have been outstripping those of foreign currencies. The Treasury continues to borrow both domestically and from abroad, but interest rates have fallen significantly. Accordingly, it appears that Turkish lira deposits and stocks will remain attractive investment alternatives for investors.

In the near future, I expect private sector companies to enter the capital markets as debtors by issuing bonds. The establishment of the Turkish Derivatives Exchange will not only expand the diversity of financial instruments available, but will also offer institutional players an opportunity to transact with more sophisticated products and increase profits. The introduction of a private pension system has served as a catalyst in raising the importance of the capital markets. In fact, all of these developments represent a return to normality that should have happened years ago.

İş Investment remained Turkey's leading investment and brokerage house in 2005, maintaining its leading position among brokerage houses in terms of transaction

volume on the ISE's Stock Market and the Bonds and Bills Market Outright Sales and Purchases Market. We are a founding member of the Turkish Derivatives Exchange, a brand new initiative in our country. İş Investment is currently playing a key role in the development of this exchange. With 25% of the transaction volume on the Turkish Derivatives Exchange, we have been by far and away the number one trader. We continue to work actively with other leading brokerage houses and corporate investors to promote the activities of this exchange. These developments should all be viewed as a result of İş Investment's devoted endeavors in the Turkish capital markets over the course of many years, and its goal of contributing to the development of these markets.

Corporate finance is one of İş Investment's core fields of operation and is directly related to the development of the capital markets. To date, İş Investment has not only conducted more public offerings than any other institution, it has also concluded the largest public offerings in Turkey. The VakıfBank public offering, concluded in 2005, was the largest to date, attracting US\$ 7.2 billion in demand note. Our unparalleled experience and know-how, as well as the breadth of our expertise and distribution channels were a major factor in this success. We also continue to play an active role in privatization projects. We

predict an increase in merger and acquisition activity, both in terms of numbers and size. İş Investment's involvement in a number of significant merger and acquisition projects has allowed it to prove its expertise in this area.

Having effectively brought its expertise and experience to international markets, it is now time for İş Investment to take its place as a global financial center. It is this goal which led us to not only open our Kazakhstan Office last year, but also to take another larger step and work on bringing the Maxis Securities brokerage house in London into operation this year. This company will be our door to Europe and the global markets.

İş Investment is rapidly moving toward becoming an institution which is a public fixture, like Türkiye İş Bankası, its major shareholder. İşbank, has never withheld its support from us and I would like to thank its valuable managers and employees, as well as all of our employees for their sacrificial work and our valuable customers and business partners for their trust.

**Özcan Türkakin**  
Chairman of the Board

# Opinions and recommendations



■ **Exchange-rate inflexibility limits the independence of China's monetary policy and thus hampers macroeconomic stability.**

Last July, China announced a 2.1 percent appreciation of the renminbi against the dollar and a move to a managed float "with reference to a basket of currencies." So far, these reforms have had little effect: The renminbi-dollar rate has appreciated only a further 0.5

percent, there is little evidence of pegging to a basket rather than to the dollar alone, and China is not following through on its July pledge to give "market supply and demand" a greater role in exchange rate determination. China's average monthly intervention in

the foreign exchange market between August and December remained huge, almost equal to the first half of 2005. In short, China's exchange rate system remains a heavily managed peg to the dollar and at a little-changed dollar rate.

Moreover, there is no indication of an end to the renminbi's substantial undervaluation. On the contrary, 2005 was the third consecutive year in which China's reserve accumulation amounted to an extraordinary 10 percent of gross domestic product or more. China's global current account surplus nearly doubled

# on the Chinese economy

**China should implement in the next few months a 10 to 15 percent appreciation of the renminbi relative to the current value of the basket.**

last year to reach 7 percent of its recently revised GDP, while the real trade-weighted renminbi still shows a cumulative depreciation since the dollar peak of February 2002.

China's exchange-rate policies have created problems domestically and abroad. Exchange-rate inflexibility limits the independence of China's monetary policy and thus hampers macroeconomic stability. Renminbi undervaluation has contributed to growing trade surpluses and, in some years, to huge portfolio capital inflows. The country's central bank sterilized much of the resulting reserve accumulation but also resorted to administrative controls to limit bank credit creation. But when the central bank specifies lending ceilings and sectoral lending priorities, it slows development of a bank credit culture, setting back another top policy objective.

China's foreign exchange reserves at the end of 2005 were about 35 percent of GDP. A 20 percent revaluation of the renminbi against the major reserve

currencies would thus impose a capital loss equivalent to 7 percent of GDP. Finally, China's prolonged, large-scale intervention in foreign exchange markets has fuelled US protectionist pressure.

China's inflexible, undervalued currency also drags on the adjustment of global imbalances and increases the risk of a hard landing for the dollar and the US economy, with adverse global spillover effects. The US current account deficit is at an all-time high; its inevitable correction will necessarily involve further depreciation of the dollar and US domestic demand growing more slowly than domestic output (and the reverse in the rest of the world). A more ambitious program of fiscal consolidation and prudent management of US monetary conditions are essential-along with policies that stimulate domestic demand growth among big US trading partners.

The real, trade-weighted dollar must fall by another 15 to 25 percent to support external adjustment. China remains a prime candidate for leading wider Asian currency appreciation because of its large external imbalance, robust domestic growth and the benchmark it increasingly sets for competitiveness within and outside the region.

China's ability to reform its exchange rate regime is constrained by its fragile banking system, which requires maintaining existing capital controls. Also, the degree of renminbi undervaluation is now so large and Beijing's commitment to an incremental approach so entrenched that eliminating the undervaluation in one hit no longer seems feasible.

Thus, we propose the following compromise. First, China should

implement in the next few months a 10 to 15 percent appreciation of the renminbi relative to the current value of the basket. This could be done either by a revaluation or by allowing market forces to push up the currency's value. Such a "downpayment" would help to persuade external critics that China is serious about controlling its growing external imbalance. Second, China should widen substantially either the band around the central rate or the daily fluctuation limit. That would provide increased independence for monetary policy, allow scope for further renminbi appreciation and give China experience in managing increased flexibility. Third, to offset some of the contractionary effect of the renminbi appreciation, China should simultaneously implement fiscal expansion. Fourth, China should maintain most capital controls until its banks are further strengthened.

This would still require sizeable real appreciation of the renminbi later, with all the problems that such a phased adjustment entails. If speculative inflows resurge, the authorities would need to choose between an acceleration of renminbi appreciation and a temporary recourse to tighter controls on capital inflows. In the final stage of currency reform -when China's banking system is more stable- China would float the currency and remove the remaining capital controls. Admittedly, this is not an elegant plan. But if it would break the existing logjam in addressing global payments imbalances, it merits consideration.

*Dr. Nicholas Lardy*  
Washington DC  
Institute of International Economics  
Lecturer

# A general overview of the economy and the capital markets

- In 2005, İş Investment maintained its number one position by rising head and shoulders above its rivals in the ISE's Stock Market and the Bonds and Bills Market as well as the newly opened Turkish Derivatives Exchange. İş Investment remains Turkey's most admired brokerage house thanks to the investment alternatives it offers to investors with a wide range of needs and expectations.

The extension of the IMF-supported economic program, the Central Bank's success in taming inflation, political stability and most importantly the start of negotiations with the EU have all served to keep the optimism in the domestic markets alive and well. However, after the rapid increase in oil prices in March, fears that the US interest rate hikes would be accelerated caused some upheaval in emerging markets. Although Turkish capital markets were hit by these developments, by the middle of the year, positive expectations for the

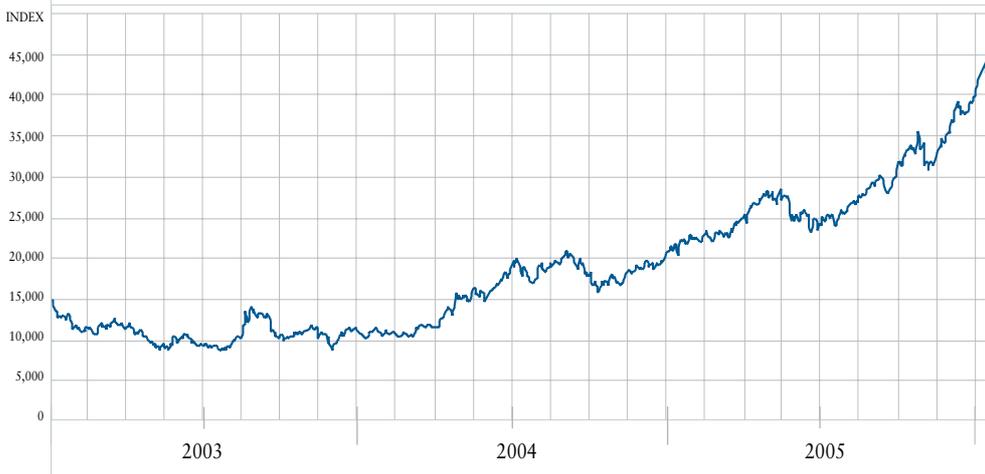
short-term began to take charge, as foreign concerns were laid to rest.

Towards the end of the year, the markets were boosted by a new tax code to take effect in 2006, statements regarding foreign investors and, later a cut in the rate of corporate tax to 20%.

Because 2005 was a year of marked improvement in the economy, political stability and the beginning of accession negotiations with the EU, increasing amounts of surplus international liquidity

flowed into Turkey. The share of domestic stocks held by foreign investors increased by 10% while the Central Bank purchased US\$ 21.5 billion from the market in 2005. Meanwhile, the Turkish lira still ended the year with gains of approximately 6% against a basket of currencies. Annual compound benchmark bond rates entered 2005 at 20%, but had fallen to 14% by the year end.

**ISE Stock Market The ISE-100 Index**



İş Investment retained its leading position by maintaining a market share of 6.15% in terms of transaction volume in the ISE Stock Market. In 2005, İş Investment conducted YTL 33.9 billion of stock transactions on the ISE.



## STOCK MARKET

With a return of 59.29%, the Istanbul Stock Exchange brought smiles to the faces of many investors in 2005 and was the best performing market. The ISE-100 Index began the year at 25,000 and reached 40,000 on the back of a growing trend that got underway in the second half of the year.

Stocks of large cap companies, which comprise the majority of the index, were popular in 2005, with foreign investors' share in portfolios rising from 51% to 66%. The average daily volume on the ISE Stock Market rose by 24% from YTL 837 million in 2004 to YTL 1.04 billion in 2005, and the ISE remained one of the most liquid exchanges in the region.

İş Investment retained its leading position by maintaining a market share of 6.15% in terms of transaction volume in the ISE Stock Market. In 2005, İş Investment conducted YTL 33.9 billion of stock transactions on the ISE.

2005 was the most successful year since 2000 in terms of new stock issues through public offerings. BİM's US\$ 214

million public offering and the US\$ 1.3 billion VakıfBank public offering were the biggest and most successful public offerings of the year. Both public offerings were completed under the leadership of İş Investment.

It was block sales, rather than primary public offerings, which gave the most direction to the market in terms of

supply. A proportion of the block sales were conducted in the wholesale market with the rest conducted in the normal market through special orders. In terms of both the number and total volume, 2005 was a record-breaking year for block sales. İş Investment concluded YTL 1.9 billion worth of block sales, equivalent to 25.6% of the total for the year.

### ISE Trading Volume



**FIXED INCOME SECURITIES MARKET**

**Interest rates continue to fall**

In 2005, bond interest rates followed a similar trend to that of 2004, falling below the funding costs at the beginning of the year before entering a corrective stagnant period caused by unexpected foreign developments. Finally, a declining trend that began in the middle of the year came to dominate the marketplace. Annual compound interest rates, which stood at around 20% at the beginning of the year, fell to 14% by the end. In January, the Central Bank's overnight interest rate was 18%, but had fallen to 13.5% by year end.

In 2005, İş Investment was the leading brokerage house in the ISE Bonds and Bills Market with a transaction volume of YTL 36 billion. İş Investment was ranked 10th among all brokerage institutions including banks, with a transaction volume greater than five of the leading banks active in the ISE Bonds and Bills Market. When the contributions made to competitors' transaction volumes of mutual funds are taken into account, the importance of İş Investment's ranking becomes apparent.

**İş Investment was ranked 10th among all brokerage institutions including banks, with a transaction volume greater than five of the leading banks active in the ISE Bonds and Bills Market.**

**Reference Compound Interest Rate**



**DERIVATIVES MARKET**

**A brand new field of activity - TurkDEX**

With the inauguration of the Turkish Derivatives Exchange (TurkDEX) in February of 2005, an organized derivatives market began operations for the first time in Turkey. One of the charter partners in the founding of TurkDEX, İş Investment completed infrastructure preparations before TurkDEX was opened. It redesigned the

workflows and accounting system to meet the needs of TurkDEX and established the Derivative Instruments Unit within the Domestic Markets Department. Training was provided to bring Investment Consultants up to speed with derivative instruments and employees who participated in the training sessions were given the

opportunity to enter transactions on the TurkDEX and closely monitor its operation. Employees were kept informed by supporting marketing activities of the Derivative Instruments Unit, with customer visits organized and presentations carried out. İş Investment will continue its efforts to promote derivative transactions and the

TurkDEX to investors in the coming months.

İş Investment has been the most active member since the TurkDEX was founded. Its goal is to be a pioneer in the production and brokering of all types of derivative contracts which are or will be traded, both in organized and over the counter markets.

### The undisputed leader in derivatives

The fact that İş Investment accounted for approximately 25% of the total transaction volume on the TurkDEX in 2005 demonstrates the importance İş Investment places on derivatives trading. İş Investment was a party in four of every ten transactions on the TurkDEX. In 2005, the transactions conducted by İş Investment totalled YTL 1.5 billion.

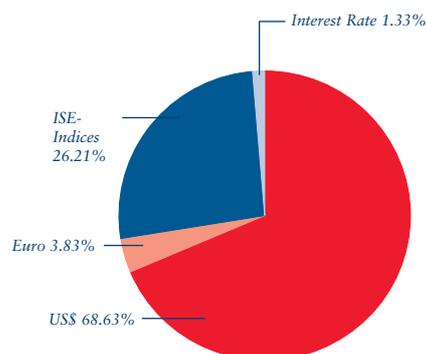
### TurkDEX transactions

In 2005, transactions were more concentrated on foreign currency contracts, followed by contracts on the ISE-Index. Due to the technical problems experienced in interest contracts drawn on the ISE Domestic Debt Securities Index, the volume of forward interest transactions fell well short of their potential. Efforts in this area are on-going and interest contracts are expected to reach higher volumes in the near future. Commodity contracts have the least liquidity.

The nature of futures transactions makes them more complex than other market instruments and requires greater technical knowledge and experience. For this reason, small individual investors would be advised to take advantage of the opportunities in these markets under the umbrella of corporate investors.



### TurkDEX Transactions in 2005



The fact that İş Investment accounted for approximately 25% of the total transaction volume on the TurkDEX in 2005 demonstrates the importance İş Investment places on derivatives trading. İş Investment was a party in four of every ten transactions on the TurkDEX.

## MUTUAL FUNDS AND INVESTMENT TRUST COMPANY

**İş Investment Type-B Variable Fund**

İş Investment's Type-B Variable Fund ranked 23rd in terms of return among all Type-B variable funds in 2005 and 15th among funds with over YTL 10 million in assets. After deducting management fees and taxes, the return of the fund's portfolio outperformed the benchmark criterion. Although the number of Type-B funds in the sector rose from 40 to 50, the İş Investment Type-B Variable Fund maintained its position both in terms of market share and market share ranking. In 2005, the fund yielded a return of 14.98% and its portfolio assets grew to YTL 172.5 million.

**İş Investment Type-A Variable Fund**

İş Investment's Type-A Variable Fund not only provided its investors with high returns in view of the benchmark criterion used at the beginning of the year, but it also met its portfolio asset targets. This fund ranked 12th among all Type-A Variable Funds with respect to yield. The total assets in the portfolio

reached YTL 27.3 million yielding an annual return of 39.36%.

**İş Investment's Type-B Süttaş Special Variable Fund**

Established in 2004, the amount managed under İş Investment's Type-B Süttaş Special Variable Fund assets reached YTL 46.9 million.

**İş Investment Trust Company Inc.**

With YTL 155 million in total assets under management, İş Investment Trust Company Inc. remains an important area of operation for İş Investment. İş Investment Trust yielded a return of 39.45% in 2005, outperforming the benchmark criterion. Portfolio assets reached YTL 155.6 million.

**Personalized service: Investment Advisory**

*Risk and return are part and parcel of the financial markets. As the term of the investment lengthens the potential for risk and higher returns increases, which is why a single formula or investment strategy cannot be applied to all investors. Following an investment strategy that takes into account the different needs of each investor as well as their understanding of risk and expectations for returns is the fundamental key to success in investment advisory services.*

*This is where the importance of the Investment Advisory services offered by İş Investment at its Head Office, as well as in its Ankara, Izmir and Istanbul-Kalamış branch offices comes into play. İş Investment assigns an investment advisor to each investor. All investment advisers hold the required professional licenses and have experience in the financial markets. All investment advisors serve customers in accordance with the principles of the "Customer Oriented Market Focused Approach". Investment advisors follow the markets closely and supported by the analysis, expectations and recommendations provided by our Research Department and our International and Domestic Capital Markets Department as they create investment alternatives which match investors' risk/return profiles.*





## THE ACHIEVEMENTS OF BRANCH OFFICES

**Thanks to İşbank's 850 branches operating as agencies, İş Investment has a wide distribution network and investor portfolio.**

İş Investment branches, which opened in Ankara and Izmir in 1998 and in Kalamış in Istanbul in 2000 continued to offer discretionary portfolio management and investment advisory services to investors. With their experienced personnel, rapid and reliable technical infrastructure and environments which reflect İş Investment's corporate identity, İş Investment is committed to providing a service which exceeds investor expectations. In 2005, all three of these branches met their targets for annual revenue and average portfolio assets.

As of the end of the year, İş Investment's Ankara Branch employed 14 personnel while the Izmir Branch employed 10 and the Kalamış Branch

13, with an average of 9.5 years of professional experience in the capital markets. İş Investment plans to expand the number of its branches in 2006.

### **Representative Office, Almaty, Kazakhstan**

In order to bring its experience and expertise in international markets to countries in the region, İş Investment's Representative Office, which was opened in 2003, serves corporate investors not only in Kazakhstan, but also in Azerbaijan, Uzbekistan, Kyrgyzstan and Turkmenistan, bringing the opportunity to invest in Turkey and international markets, with guidance from İş Investment, to investors from these countries.

General Manager İlhâmi Koç

# "Investment instruments are becoming increasingly diversified"

*Before we go over your activities in 2005, why don't we begin by briefly talking about trends in the economy and the markets? What is your general assessment of 2005?*

Global economies generally followed a positive trend in 2005. In spite of the twin deficits in the USA, the sudden rise in oil prices and fluctuations in the dollar-euro exchange rate, expectations remained positive.

When we look at our country, we see a continuation of the positive atmosphere created by political and economic stability. The start of membership negotiations with the EU also changed the way our country is perceived in investing circles. Turkey has begun to be defined, at least in the long run, as a "convergence" country. Thus, Turkey continued to attract capital investments in

2005, both in direct and portfolio investments.

Other factors underlying the substantial capital inflows were developments in the international money and capital markets. The optimism which emerged in global markets combined with the fact that oil exporting countries transferred surplus liquidity acquired as a result of higher prices to developing countries was also instrumental in the increase in capital inflows entering our country.

In spite of all these promising developments, the following are issues that corporate and individual investors must pay careful attention to in the coming months: rising interest rates which threaten global liquidity, fluctuations in the dollar-euro rate, international political tension that could

threaten world peace, a period of stagnation in the export boom that Turkey has enjoyed and the widening current account deficit. However, on the whole I remain optimistic and believe the positive outlook currently dictating the market and investor confidence will continue.

*If we were to summarize İş Investment activities for 2005, what stands out?*

This year, we once again maintained our leading position on the Istanbul Stock Exchange with a stock trading volume of YTL 34 billion. We were also the number one brokerage house in the Bonds and Bills market with a trading volume of YTL 36 billion. With a transaction volume of YTL 1.5 billion and a 25% share of the market, we were also the leading institution on the Turkish Derivatives Exchange, which opened

■ **İş Investment introduces more public offerings than any other brokerage house in Turkey. Since our company was founded, we have successfully completed the public offering of 31 private sector companies and 27 state-owned companies under the privatization program.**



in February 2005. All these developments stand as testament to İş Investment's leading position and strength in our country's capital markets.

*We know that your efforts in the field of corporate finance have been very significant. Can you tell us about your most important projects in 2005?*

Last year, we conducted the public offering of VakıfBank, one of the largest public offerings in Turkey's history. This offering attracted US\$ 7.2 billion of demand and we once again demonstrated the level of confidence that people place in İş Investment, as well as its distribution power in public offerings. This is the highest level of demand ever collected in a public offering scheme in Turkey. İş Investment introduces more public offerings than any other brokerage house in Turkey. Since our company was founded, we have successfully completed the public offering of 31 private sector companies and 27 state-owned companies under the privatization program.

Furthermore, in 2005, we also concluded the public offering of BİM, short for United Stores Inc., and the privatization of Cyprus Turkish Airlines. The sale of CineMaxx Cinemas, our consultation services in the privatization of Netsel Tourism Investments Inc. and our brokering of a Eurobond issuance worth US\$ 200 million by Alliance Bank, one of the leading Kazakhstan banks also stand out among the other corporate finance projects concluded last year.

*Would you tell us a bit about your international expansion in 2005?*

As you know, we not only offer domestic investors the opportunity to invest in international markets but also trade Turkish money and capital market instruments on behalf of foreign corporate investors. Now, we have added derivative products to these instruments.

Last year, our International Sales and Marketing Department significantly increased its market share in international sales. Thanks to the close relationships developed with our foreign customers and the quality services that we offer, we have remained the undisputed leader in block

sales of equities. In addition to providing superior quality service which meets international standards, the fact that our customer portfolio stretches from Africa to Brazil, America to India and the Gulf countries has played an important role in our success.

In 2005, our first step toward expanding in the international market was the establishment of Maxis Securities, a company wholly owned by us, in London, one of the world's primary financial centers. Following the opening of our Representative Office in Kazakhstan in 2004, this was our second venture in international markets.

*Can you briefly comment on the Turkish Derivatives Exchange that has just opened? What advantages will this bring to the capital markets and what role will İş Investment play in this exchange?*

It has been approximately one year since the Turkish Derivatives Exchange was established and future prospects already look bright. At the end of 2005, there were 160,000 open positions on the TurkDEX and the average daily transaction volume had reached YTL 25 million. We expect the daily transaction volume to reach YTL 100 million YTL in the near future.

Until now, the Turkish financial markets have been unable to generate new instruments and mainly relied on traditional investment instruments. In fact, for many years private sector bonds and commercial paper were unavailable in the marketplace. Investors complained of a lack of diversity in financial instruments in Turkey and as a result were unable to protect themselves from price volatility. With TurkDEX's future contracts, financial instruments have begun to diversify.

Futures transactions will also provide the basis for sophisticated financial engineering. In the near future, it will be possible to write option contracts for investment vehicles such as stocks, bonds and foreign currencies, as well as developing new derivative instruments using the existing ones.

Futures contracts are more complex than classic instruments and require more technical knowledge. It will therefore take some time for investors to become familiar

and transact with them. It has also just become possible for mutual funds to invest in derivative products.

*İş Investment was number one in Capital magazine's survey of the most admired companies in 2005. Can you give a breakdown of the scope and results of this survey for us?*

According to the results of Capital magazine's "Report on Turkey's Most Admired Companies", which surveyed 1,350 upper level managers from over 500 companies, we were chosen, together with one other company, as Turkey's Most Admired Brokerage Institution. We had ranked first in the same study in 2003 and second in 2004. This indicates that İş Investment's successful performance is recognized not only by customers, but by upper level management as well. The "Turkey's Most Admired Brokerage Institution" award is a product of combined hard work and the joint effort of each and every İş Investment employee.

*Is there anything that you would like to add with regard to the future?*

I foresee rapid development in Turkey's derivatives markets in 2006. Investment instruments are becoming increasingly diversified. Because we identified this trend in the capital markets some time ago, we have completed the necessary preparations to provide every possible service on the derivatives exchange.

We are developing alternative methods to meet the financial needs of the private sector. İş Investment will bring its pioneering spirit and leadership in capital markets to this field. With the experience our company has acquired over the years, we will serve our customers in the private sector to raise funding either in the form of equity or borrowing from financial markets.

We know we must constantly offer the very best if we are to remain the leading institution in Turkey's capital markets. I believe we have the human resources, technological infrastructure, shareholder support and above all the customer confidence necessary to achieve this.

Thank you.

# Surprises, disasters and hopes...

- **German and Japanese markets were more affordable than US stock markets in 2004, prompting investors to direct more funds to those markets in 2005.**



## International stock markets

International stock markets closed 2005 with significantly varying performances. When the fundamental figures are compared, German and Japanese markets were more affordable than US stock markets, prompting investors to direct more funds to those markets. The most important reasons behind the weak performance of US stocks were the FED's continued series of rate hikes, taking interest rates up to 4.25%, natural disasters such as Hurricane Katrina and the fallout of rising raw material costs on profits.

On the other hand, the fact that the Christian Democrats have taken the lead in a new coalition with the Schroder government, which suffered greatly from its inability to solve economic problems, has renewed hope that reforms will be implemented that can strengthen the German economy. Germany is attempting to solve its problems with a growth strategy based on intensive exports, and has remained one of the developed markets to attract investor interest because its stocks were undervalued. Similarly, Japanese stocks were popular thanks to the Kozumi government's clear victory in the election held to guarantee the privatization of the postal system, together with a number of economic indicators suggesting that the country

**The US economy started the year with interest rates at 2.25%; by the end of December they had climbed to 4.25%. The European Central Bank, on the other hand, raised interest rates just 25 basis points to 2.25%.**



#### PERFORMANCE OF WORLD STOCK INDICES IN 2005

Index	Local Currency (%)	US\$ (%)
Dow Jones	0.21	0.21
FTSE	15.99	5.83
DAX	26.35	10.55
CAC 40	23.83	8.35
NIKKEI	38.90	21.41

has emerged from its period of deflation.

#### Foreign currency markets

The FED's decisions were a significant determining factor in the currency markets. The US economy started the year with interest rates at 2.25%; by the end of

December they had climbed to 4.25%. The European Central Bank, on the other hand, raised interest rates just 25 basis points to 2.25%. The euro depreciated from 1.36 to 1.18 against the dollar on the back of factors favoring the dollar, and the outperformance of the US economy compared to Eurozone economies.

#### Commodity markets

Soaring demand in China and India, as well as the reconstruction efforts in areas hit by disaster in the US moved commodity prices higher. Industrial metals, such as copper and aluminium, hit 10-year highs and the CRB index gained 16%. However, oil was the main attraction in the commodity markets. Increased demand, inadequate refining capacity and natural disasters forced oil prices up to US\$ 70 per barrel. Precious metals also advanced significantly in US dollar terms because of the current account deficit in the US, and against the euro because of the constitutional crisis and weak European economies and against the yen, which had been suffering from deflation for years, and

is no longer viewed with confidence by investors. Taking into account the fact that commodity and stock markets experience cycles that can be characterized as "boom-bust", and given that these cycles generally last 7-10 years, we are probably safe in saying that we are at the beginning of a new bull trend in precious metals prices.

**International bond markets**

Inflows of capital to emerging markets sustained their pace in 2005, proving most of the estimations made in 2004 wrong. Although the US FED raised short-term interest rates by 200 basis points to 4.25%, the "spread" in sovereign bonds issued by emerging countries narrowed by 107 basis points. Oil exporting countries such as Russia and Venezuela were among the best performing markets in 2005, taking advantage of oil prices that reached as high as US\$ 70 per barrel. Turkish Eurobonds, on the other hand, underperformed the overall market even though Turkey had begun negotiations with the EU on October 3, 2005 and economic growth figures were better than expected. The reason for this was concerns over the gaping current account deficit and the high cost of imported oil.

**Oil exporting countries such as Russia and Venezuela were among the best performing markets in 2005, taking advantage of oil prices that reached as high as US\$ 70 per barrel.**

**EMBI AND SUB-INDEX PERFORMANCE IN 2005**

Country	2005 Jan.	2005 Dec.	Change
EMBI+	357	250	(107)
Venezuela	413	314	(99)
Russia	215	118	(97)
Brazil	385	313	(72)
Ukraine	231	176	(55)
Turkey	266	222	(44)
Mexico	164	127	(37)

**Continuing to make a difference in international sales**

*The fact that a date was set for full EU membership negotiations at the European Union Leaders Summit at the end of 2004 significantly raised interest in YTL-denominated instruments in 2005. International investors with experience in other countries which have successfully completed the European Union adventure propelled Turkey to the top of their list of emerging markets to invest in. The annual trading volume of US\$ 81 billion in the stock market set an all time record. The confidence created by the steadfast implementation of the economic program ensured that 2005 was a profitable year for all investors.*

*In addition to the increased transaction volume on the ISE in conjunction with these developments, İş Investment's International Sales and Marketing Department increased its market share by 50%. In brokered block sales, İş Investment maintained its undisputed lead thanks to close relationships with foreign customers and its superior quality of service.*

*In 2005, secondary public offerings and block buying transactions totaled US\$ 4.4 billion. İş Investment handled US\$ 1.16 billion in public offering transactions during the year, underpinning its place as the leading institution in this field with a market share of 26%. İş Investment's international sales team concluded sales of US\$ 846 million to international corporate investors under these public offerings, translating into a significant amount of short-term net capital inflow into Turkey. İş Investment's extensive customer network, and its service to customers, which meets international quality standards foster this success.*



# A leader in public offerings



## SUCCESS IN PUBLIC OFFERINGS

- **There were nine public offerings concluded in our country in 2005 and a total of US\$ 1.7 billion was raised.**

Because of the positive developments in the market and the heightened interest from foreign investors, 2005 was the most successful year since 2000 in terms of the number of public offerings carried out. There were nine public offerings concluded in our country in 2005 and a total of US\$ 1.7 billion was raised. İş Investment served as the leader in two schemes worth US\$ 1.5 billion.

İş Investment worked with Merrill Lynch and CSFB to successfully complete another public offering, serving as the leader in the BIM IPO which was

approximately 3.6 times oversubscribed. We also worked intensively on the Selçuk Pharmaceuticals Depots Inc. IPO project, but it was postponed until 2006 due to a prolonged legal process.

In the last quarter of the year, İş Investment provided consultation services to Coca-Cola Drinks Inc. for its purchase of a 52% majority stake in Efes Industrial Investment, and brokerage services were then provided in the mandatory public call process. At the successful conclusion of the transactions,

Coca-Cola Drinks had obtained an 87% stake in this company.

Furthermore, on the back of conducive market conditions and investor interest, İş Investment provided brokerage services for numerous block sales and Wholesale Market transactions on the ISE.

In 2005, İş Investment's share of sales conducted in the ISE Special Order and Wholesale Market was YTL 1.9 billion accounting for 25.67% of the total.

### ***VakıfBank's IPO: The highest demand experienced to date***

*The VakıfBank public offering, which was the largest IPO ever conducted (US\$ 1.3 billion) and one in which İş Investment served as the leader, was approximately six times oversubscribed. This IPO attracted more demand than any other public offering in Turkish markets to date.*

*Not including the right to sell additional VakıfBank shares, 69% of the shares were sold to foreign corporate investors while 31% were sold to domestic investors. Fifteen percent of domestic sales were realized by İş Investment.*

## PRIVATIZATION



### Critical assignments in privatization projects

When it comes to privatization, 2005 was, like the previous year, a very busy year and privatization revenues reached record levels.

İş Investment continued to work with the international consultant, Citigroup, on the Tekel General Directorate privatization project, which İş Investment was assigned to in the last quarter of 2002 as a domestic consultant. After the privatization of Tekel's Alcohol Department in 2003, efforts to re-tender the Cigarette Department were expedited in the last quarter of 2004 and the second public announcement was made on December 10, 2004. İş Investment was given the assignment to organize the tender for the cigarette production facilities in the first quarter of 2005, but the deal had to be cancelled because there were no bids for the tender.

İş Investment is also working exclusively on the privatization of Tekel General Directorate's salt operations. Work was initiated in the last quarter of 2003 and continued in 2004. After completing the sale of the Kağızman Saltpan and Kristal Salt Refinery Inc., the Kaldırım, Kayacık

**When it comes to privatization, 2005 was, like the previous year, a very busy year and privatization revenues reached record levels.**

and Yavşan salt pans were tendered on August 31, 2005. In these tenders, the Turkish Privatization Administration generated US\$ 120.2 million in total revenues. Work is continuing on the tender of the Ayvalık Saltpan, one of two salt pans still in the Privatization Administration's portfolio. Consulting services were provided to the Privatization Administration regarding preparation of the appraisal reports and

promotion in the tender opened in 2005 for the privatization of Cyprus Turkish Airlines. The privatization process was completed with the sale of the company to Ada Aviation for US\$ 33 million.

Work on the privatization of the 17 subsidiaries and participations within the scope of the Sümer Holding privatization project continued throughout 2005 and had been completed by the end of the year.

İş Investment continued to provide consulting services to the Privatization Administration with regard to the Manavgat River Water Facilities Project, which was awarded to the Company in 2004.

İş Investment retained its status as the Privatization Administration's brokerage house by winning the tender for handling the Administration's stock sales on secondary markets. The first large-scale transaction in this area was the sale of 14.76% of Tüpraş's capital to foreign corporate investors on March 4, 2005 as a representative of the Privatization Administration.

### IPO SCHEMES CONCLUDED IN TURKEY IN 2005

	Total Revenues	
	YTL	US\$
Trabzonspor Sportive Investment and Commerce Inc.	32,812,500	24,567,610
Akmerkez Real Estate Investment Trust Inc.	268,520,000	201,048,218
İnfotrend Type-B Securities Investment Trust Inc.	5,567,600	4,038,004
Evg Investment Trust Inc.	2,846,250	2,139,394
<b>BİM United Stores Inc. *</b>	<b>290,222,891</b>	<b>214,186,635</b>
Anel Telecommunication Electronic Systems Ind. & Com. Inc.	33,660,000	25,104,415
Hedef Securities Investment Trust Inc.	1,375,000	1,023,370
<b>Türkiye Vakıflar Bankası T.A.O. *</b>	<b>1,723,298,835</b>	<b>1,269,091,122</b>
Mert Foodstuff, Apparel Ind. & Com. Inc.	3,750,000	2,765,487
<b>Total</b>	<b>2,362,053,076</b>	<b>1,743,964,256</b>

\* Public offerings in which İş Investment served as the leader  
Source: İSE



## STRATEGIC PLANNING AND MERGERS & ACQUISITIONS

### *Preparing companies for the future*

*Companies which apply to investment houses to go public or initiate M&A activity are generally not prepared for such transactions. For instance, companies need to begin restructuring long before they actually launch an IPO. In this regard, a strategic pre-IPO planning study was conducted for one holding company.*

### **Consultation to major M&A projects**

İş Investment continued to provide consultation services to İş Venture Capital in 2005. A large number of projects were examined and Tüyap Fuarçılık received consultation services

for a US\$ 6.9 million investment. İşbank received consultation services in the sales transaction of a 54.68% stake in İzmir Iron and Steel, an İşbank company, to Şahin Koç Steel for US\$ 79.05 million.

Consultation services were also provided to Tepe Group in their sale of Tepe Cinemaxx to Cinemars. Even though consultation was provided to İş Real Estate Investment Company for the acquisition of the Tepe Nautilus Shopping centre and to İşnet for its acquisition of Superonline and one other alternative telecommunications operator, a deal could not be concluded.

In addition to merger and acquisition transactions in the private sector, İş Investment also offered consultation services to prospective buyers on almost every project within the scope of the privatization program. Prospective foreign buyers received consultation services in the Tüpraş and Ereğli Iron and Steel tenders.

### **Project financing in mergers & acquisitions**

İş Investment also began to work on project financing, a central part of merger & acquisition activities, initiating relationships with numerous foreign institutions that could be in a position to supply funds in this area. As a first step, Kayseri Sugar Factories received project financing consultations for the Boğazlıyan Factory which it plans to establish, and loans of € 100 million were secured.

### **Other corporate finance activities**

Other corporate finance activities in 2005 included a continuation of services for transactions of listed companies related to capital increases, dividend distribution and stock certificate changes. However, on November 28, 2005, such activities were discontinued with the transition to the central registry system.

# Mergers and acquisitions in 2005



**Efsane Çam**  
İş Investment,  
Mergers and Acquisitions Manager

- **Nineteen of the transactions concluded in 2005 were privatizations while 18 were sales of assets held by the Savings Deposit Insurance Fund (SDIF).**

*With the Turkish economy firmly in a period of healthy growth, with single digit inflation and an atmosphere of regained confidence, 2005 was a record-breaking year in terms of company mergers and acquisitions. Mergers reached their highest levels ever with a transaction volume of approximately US\$ 39 billion in 177 mergers and acquisitions. In 2004, there were 91 mergers and acquisitions worth a total of US\$ 2.5 billion.*

*Nineteen of the transactions concluded in 2005 were privatizations while 18 were sales of assets held by the Savings Deposit Insurance Fund (SDIF). The privatizations of Tüpraş, Erdemir and Turk Telecom, which had been on the privatization agenda for more than 10 years, were completed in 2005, raising approximately US\$ 13.3 billion, with the total proceeds from privatization reaching US\$ 16.9 billion. Considering that this sum surpasses the total of all privatization revenues received between 1984 and 2004, it is clear that 2005 was a watershed year in the transfer of state-owned assets to the private sector.*

*The sale of companies which had been taken over by the SDIF and operating in the cement, media and telecommunication sectors brought significant changes in these fields. Vodafone entered the Turkish GSM sector with the sale of Telsim and demonstrated that Turkey was now an attractive market in the eyes of foreign investors, and signalling an increase in the number of foreign investors in the years to come. The sale of eight cement factories raised approximately US\$ 1 billion in revenue. With the sale of Star TV and other Uzan assets, the amount raised by the SDIF reached US\$ 6.4 billion. The transactions related to the sale of the 10 largest companies in 2005 can be seen in the table on the right hand side.*

*When we look at the companies that had acquisitions, we see that 20 foreign companies entered the Turkish market in 2003 and 18 in 2004. This number rose to 61 in 2005, a clear signal of heightened foreign interest. When sales with an undisclosed value are included, it is estimated that purchases by foreign companies approached US\$ 18 billion. Turkish companies also played a major role in the purchase of the remaining 116 companies for sale. We should emphasize that the most important factor was the shift of foreign capital already present in the capital markets to more permanent investments in Turkey.*

Company	Buyer	Sector	Share (%)	Value (million US\$)
1. Turk Telecom	Saudi Oger	Telecommunications	55	6,550
2. Telsim	Vodafone	Telecommunications	-	4,550
3. Tüpraş	Koç-Shell OGG	Energy	51	4,140
4. Erdemir	Oyak	Iron & Steel	49.3	2,960
5. Garanti Bank	GE Capital	Banking	25.5	1,805
6. Turkcell	Alfa Group	Telecommunications	13.2	1,590
7. Yapı Kredi Bank	Koçbank	Banking	57.4	1,508
8. Dışbank	Fortis	Banking	89.3	1,160
9. TCDD Mersin Port	PSA-Akfen OGG	Port Services	-	755
10. POAŞ	Doğan Group	Energy	44.1	616

The privatizations of Tüpraş, Erdemir and Turk Telecom, which had been on the privatization agenda for more than 10 years, were completed in 2005, raising approximately US\$ 13.3 billion.

*Increasing foreign interest, especially in the telecommunication and banking sectors, and purchases of majority stakes in companies in these areas indicates that there will be further transactions of this type in 2006.*

*Turkish companies, on the other hand, have shown a preference for growth strategies that entail purchases in sectors where they have been actively engaged for the last few years. One of the primary reasons for this is rapidly accelerating consolidation. We are increasingly seeing a horizontal integration process in certain sectors. In 2005, companies increased their market shares and become even stronger with the consolidations that have taken place, notably in sectors such as energy, media, banking and retailing.*

*Activity in the tourism sector has been primarily related to the sale of five-star hotels such as Swissotel Istanbul and Hilton-Istanbul, as well as some facilities belonging to Public Servants Pension Fund. Sales of a similar nature are expected to continue in 2006.*

*The percentage of foreign capital entering Turkey from the Gulf states increased significantly in 2005. The sale of Turk Telecom to the Saudi Oger Group and the interest shown by Middle Eastern capital in cement, port operations and financial services are viewed as an investment flow that has the potential to increase steadily in the coming years. It is also evident that Russian capital has become significant in the energy, telecommunication and tourism sectors.*

*Further capital activity, especially in the banking and energy sectors, is expected on the back of the bright economic outlook in 2006 and with the EU membership process picking up speed. We foresee a continuation of the hotel sales which began in 2005, the privatization of electricity distribution rights, sugar factories, ports and highways by the Privatization Administration in 2006, as well as an acceleration of privatization projects such as the National Lottery. We also expect progress to be made on the privatization of Halkbank.*



# The strength behind the success

■ **Qualified human resources is an indispensable element in investment banking. There is an increasing need for qualified experts as markets get more and more complicated. This need must be taken into account in the recruitment process as well as during career and training planning at later stages.**

## Qualified human resources

İş Investment entered 2005 with 194 employees and ended the year with 208. In 2005, new graduates with the goal of working in the capital markets and who had completed a bachelor or graduate education were recruited and began the training necessary to adapt to the goals and corporate culture of İş Investment. These newly-hired personnel took part in on-the-job and technical training programs as well as personal development training programs.

## Ensuring continued success through trainings

Training was provided to 179 employees in 2005. Employees each received an average of 19 hours of training, and a total of 560 days of training was provided during the year. The training sessions were grouped under the following categories: capital markets licensing, specialization and professional development. In 2005, there was a focus on training abroad for the purpose of following global developments and expanding corporate vision. In the first months of 2006, coaching and leadership

training sessions are planned to develop managerial skills.

By the end of 2005, a total of 130 İş Investment personnel had been granted a license from the Capital Markets Board. The goal is for those personnel who have been hired as assistant specialist interns, and who are subject to rotation to obtain appropriate licenses by September 2006.

A total of 94 students were given the opportunity to carry out internships, primarily in the Agency Services Department. The majority of interns were selected from the business and economics faculties of universities.

# An active participant: The Research Department

- The Research Department tracks 65 listed companies and regularly prepares reports on those companies which comprise 75% of the total market capitalization on the exchange, issuing Buy-Sell-Hold recommendations.



As investment instruments have started to diversify at the end of the high inflation-high interest rate era, and as overall prices on the stock market have risen, it has become more important to base investment decisions on accurate information and research findings.

In this type of investing environment, the efforts, assessments and recommendations of the Research Department have begun to take center stage. Our research specialists have not only determined investment strategies, they have also actively participated in studies focused on investor priorities. In this regard, numerous visits to both domestic and foreign corporate investors took place in 2005, with a

number of exclusive meetings and company visits arranged.

The Research Department tracks 65 listed companies and regularly prepares reports on those companies which comprise 75% of the total market capitalization on the exchange, issuing Buy-Sell-Hold recommendations. The Recommended Portfolio, which consists of those stocks with a "Buy" recommendation and which offer the potential for the highest returns, outperformed the ISE-100 index by 5% in 2005. The performance of the Recommended Portfolio helped our investors achieve higher returns on their own portfolios.

## ***Experience and a specialized research team***

*In 2005, the Research Department was expanded to include two experienced specialists and a new analyst responsible for the banking and retailing industries. The average professional experience of the Research Department team is six years.*

# A technological revolution at İş Investment

- **Implementation of the Kybele-Integrated Investment Banking System developed in-house with Object-oriented, multi-layered Java technology started at the beginning of 2005.**

## New technology, new horizons

Implementation of the Kybele-Integrated Investment Banking System developed in-house with Object-oriented, multi-layered Java technology started at the beginning of 2005. The new investment banking software was set up in a powerful software infrastructure developed by İş Investment. This software infrastructure provides unprecedented control and flexibility in investment banking transactions and has begun to play a key role in helping İş Investment lead the way in the rapidly developing and changing financial markets.

At the beginning of 2005, İş Investment started to implement the Kybele-Integrated Investment Banking System and managed a problem-free transition to the New Turkish Lira. This has allowed us to begin offering customers a faster, more reliable and more detailed service, as well as raising the efficiency of our workforce.

The Kybele Derivatives Exchange System was developed to track transactions on the TurkDEX. This system was developed ahead of our competitors in a more secure and flexible software environment, allowing us to offer customers futures and options transactions.

In accordance with a Capital Markets Board (CMB) ruling, the required software infrastructure was included in the Kybele System and transitions were

successfully completed so that stocks, the İş Investment Type-A Variable Fund, the İş Investment Type-B Variable Fund and the İş Investment Type-B Sığaş Special Variable Fund could be registered at the Central Registry Agency (CRA) and data transfers could continue with this institution.

This has allowed stock orders to be entered into the investment banking system the moment they are received from the customer. The HS Instantaneous Transaction software infrastructure was developed to ensure that transactions, such as corrections, improvements and transfer of orders to the Exchange via Ex-API or a trader, could be performed.

The necessary software infrastructure was created to handle short selling and securities lending transactions and track them.

The necessary adjustment to the investment banking system will be carried out to comply with the New Income Tax Regulations that will enter effect on January 1, 2006. The advantages that the current tax code, valid until December 31, 2005, offer investors will be completely protected as required by law and will be passed on to our customers as these adjustments are being carried out.

The Ex-API System, operated on a joint infrastructure platform with İşbank, has been redeveloped and improved. Speed has been prioritized and new methods developed to prevent the system from shutting down when problems occur.

A new Turkish website has been developed that conforms to the design standards applied at [www.isinvestment.com](http://www.isinvestment.com). The [www.isyatirim.com.tr](http://www.isyatirim.com.tr) website now offers a new look and richer content.



**İŞ YATIRIM MENKUL DEĞERLER A.Ş.  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

(Translated into English from the Original Turkish Report)



CONVENIENCE TRANSLATION OF REPORT AND  
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

İŞ YATIRIM MENKUL DEĞERLER A.Ş.

AUDITORS' REPORT FOR THE PERIOD  
1 JANUARY – 31 DECEMBER 2005

To the Board of Directors of  
İş Yatırım Menkul Değerler A.Ş.

1. We have audited the accompanying consolidated balance sheet of İş Yatırım Menkul Değerler A.Ş. and its subsidiaries (together the "Group") as of 31 December 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended prepared in accordance with accounting standards published by the Capital Markets Board ("CMB"). Our audit was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
2. In our opinion, the accompanying financial statements present fairly the financial position of the Group as at 31 December 2005 and the results of its operations for the year then ended in accordance with generally accepted accounting principles determined by CMB (See Note 2).
3. Without qualifying our opinion, we draw attention to the following:

The Group has applied CMB Communiqué No: XI / 25 "Communiqué on Capital Market Accounting Standards" for the first time to its consolidated financial statements as of 31 March 2005. Therefore, consolidated statements of income, changes in shareholders' equity, cash flows and related notes were not comparatively presented.

4. Additional paragraph for English translation:

The effect of the differences between the accounting principles summarized in Note 2 and the accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified and reflected in the accompanying consolidated financial statements. The accounting principles used in the preparation of the accompanying consolidated financial statements differ materially from IFRS, principally with respect to the accounting for the effects of hyperinflation and presentation. Accordingly, the accompanying consolidated financial statements are not intended to present the Group's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.  
Member of DELOITTE TOUCHE TOHMATSU



Hasan Kılıç  
Partner

Istanbul, 6 April 2006

**CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005**

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

ASSETS	Note	31 December 2005	31 December 2004
<b>Current Assets</b>		<b>357,526,785</b>	<b>231,076,767</b>
Cash and cash equivalents	4	51,843,936	6,187,595
Marketable securities (net)	5	223,035,716	206,366,121
Trade receivables (net)	7	69,733,888	12,905,539
Due from related parties (net)	9	621,410	437,025
Other receivables (net)	10	11,284,526	5,073,016
Deferred tax assets	11	-	-
Other current assets	12	1,007,309	107,471
<b>Long-term Assets</b>		<b>14,498,981</b>	<b>17,722,731</b>
Trade receivables (net)	7	-	-
Due from related parties (net)	9	-	-
Other receivables (net)	10	-	-
Financial assets (net)	13	19,401,056	18,383,928
Positive / (negative) goodwill (net)	14	(7,590,203)	(4,502,481)
Tangible assets (net)	15	2,390,850	3,566,090
Intangible assets (net)	16	199,317	275,194
Deferred tax assets	11	97,961	-
Other long-term assets (net)	12	-	-
<b>TOTAL ASSETS</b>		<b>372,025,766</b>	<b>248,799,498</b>

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

## CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

LIABILITIES	Note	31 December 2005	31 December 2004
<b>Short-term Liabilities</b>		<b>109,296,795</b>	<b>38,198,777</b>
Short-term borrowings (net)	6	24,067,744	3,469
Short-term portions of long-term borrowings (net)	6	-	-
Finance lease payables (net)	8	-	-
Other financial liabilities (net)	10	36,417,505	-
Trade payables (net)	7	37,644,277	29,487,672
Due to related parties (net)	9	26,371	15,614
Advances received	17	-	-
Provisions	19	9,441,831	5,804,006
Deferred tax liabilities	11	-	-
Other short-term liabilities (net)	10	1,699,067	2,888,016
<b>Long-term Liabilities</b>		<b>125,666,182</b>	<b>105,383,567</b>
Long-term borrowings (net)	6	-	-
Finance lease payables (net)	8	-	-
Other financial liabilities (net)	10	-	-
Trade payables (net)	7	-	-
Due to related parties (net)	9	631	505
Advances received	17	-	-
Provisions	19	736,656	632,492
Deferred tax liabilities	11	-	247,613
Other long-term liabilities (net)	10	-	-
Minority interest	20	124,928,895	104,502,957
<b>Shareholders' Equity</b>		<b>137,062,789</b>	<b>105,217,154</b>
Capital	21	96,800,000	45,000,000
Treasury stock	21	(215,738)	(215,738)
Capital reserves	22	8,681,829	43,518,502
- Premium in excess of par		-	-
- Gain on cancellation of equity shares		-	-
- Revaluation fund		-	-
- Valuation fund on financial assets		8,548,670	3,075,121
- Shareholders' equity inflation restatement differences		133,159	40,443,381
<b>Profit reserves</b>	<b>23</b>	<b>1,142,221</b>	<b>1,256,324</b>
- Legal reserves		322,076	-
- Statutory reserves		-	-
- Extraordinary reserves		35,372	-
- Special reserves		819,476	38,415
- Gain on sale of properties and equity participations which will be transferred to capital		-	1,217,909
- Currency translation reserve		(34,703)	-
Net profit for the period		26,406,789	15,011,594
Retained earnings	24	4,247,688	646,472
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>372,025,766</b>	<b>248,799,498</b>

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

**CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2005**

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

INCOME STATEMENT	Note	2005
<b>OPERATING INCOME</b>		
Sales revenue (net)	32	29,019,265,044
Cost of sales (-)	32	(28,986,283,141)
Income from services (net)	32	33,668,358
Other operating income (net)	32	32,149,799
<b>GROSS PROFIT</b>		<b>98,800,060</b>
Operating expenses (-)	33	(28,814,705)
<b>NET OPERATING PROFIT</b>		<b>69,985,355</b>
Other income and profit	34	1,795,386
Other expenses and losses (-)	34	(2,612,999)
Financial income (net)	35	(809,871)
<b>PROFIT BEFORE MONETARY GAIN / (LOSS) AND TAX</b>		<b>68,357,871</b>
Net monetary gain / (loss)	36	-
Minority interest	20	(34,397,157)
<b>PROFIT BEFORE TAXATION</b>		<b>33,960,714</b>
Taxation	37	(7,553,925)
<b>NET PROFIT FOR THE PERIOD</b>		<b>26,406,789</b>
<b>EARNINGS PER SHARE</b>	<b>38</b>	<b>-</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2005

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

	Capital		Treasury Stock	Valuation Fund on Financial Assets	Shareholders' Equity		Gain On Sale Of Properties And Equity Participations Which Will Be Transferred To Capital	Extra-ordinary Reserves	Legal Reserves	Special Reserves	Currency Translation Reserve	Net Period Profit / (Loss)	Retained Earnings	Total
	Capital	Stock	Reserves	Inflation Restatement Differences	Equity Inflation Restatement Differences	Reserves	Capital	Reserves	Reserves	Reserves	Reserve	(Loss)	Earnings	Total
Balance as of 1 January 2005	45,000,000	(215,738)	-	3,075,121	40,443,381	-	1,217,909	-	-	38,415	-	15,011,594	646,472	105,217,154
<b>Transfers:</b>														
Capital increase	51,800,000	-	-	-	(40,310,222)	-	(1,217,909)	-	-	-	-	-	(10,271,869)	-
Transfers to retained earnings	-	-	-	-	-	-	-	-	-	-	-	(15,011,594)	15,011,594	-
Increase in value of securities available for sale	-	-	-	5,473,549	-	-	-	-	-	-	-	-	-	5,473,549
Legal reserves	-	-	-	-	-	322,076	-	-	-	-	-	-	(322,076)	-
Extraordinary reserves	-	-	-	-	-	-	-	35,372	-	-	-	-	(35,372)	-
Special reserves	-	-	-	-	-	-	-	-	-	781,061	-	-	(781,061)	-
Currency translation reserves	-	-	-	-	-	-	-	-	-	-	(34,703)	-	-	(34,703)
Net period profit	-	-	-	-	-	-	-	-	-	-	-	26,406,789	-	26,406,789
<b>Balance as of 31 December 2005</b>	<b>96,800,000</b>	<b>(215,738)</b>	<b>-</b>	<b>8,548,670</b>	<b>133,159</b>	<b>322,076</b>	<b>-</b>	<b>35,372</b>	<b>819,476</b>	<b>26,406,789</b>	<b>(34,703)</b>	<b>4,247,688</b>	<b>137,062,789</b>	

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

	Note	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit for the period		26,406,789
Adjustments to reconcile net profit to net cash used in operating activities:		
Depreciation of tangible assets	15	1,596,118
Amortization of intangible assets	16	142,201
Amortization of goodwill	14	(244,613)
Retirement pay provision	19	259,219
Minority interest	20	34,397,157
Marketable securities interest accruals		(16,704,849)
Interest accruals for time deposits		(221,973)
Accrued expense for forward transaction		500,525
Interest accrual for borrowings		115,249
Allowance for diminution in value of financial assets		(1,017,128)
Income tax provision	37	7,553,925
Operating cash flows before movements in working capital		52,782,620
Change in trade receivables		(56,828,349)
Change in due from related parties		(184,385)
Change in other receivables		(6,446,809)
Change in trade payables		8,156,605
Change in due to related parties		10,883
Change in other liabilities and expense accruals		4,326,457
Cash provided by operations		1,817,022
Income taxes paid		(10,942,144)
Retirement pay provisions paid	19	(155,055)
Net cash provided from operating activities		(9,280,177)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Changes in marketable securities (net)		5,508,803
Purchases of tangible assets	15	(426,300)
Purchases of intangible assets	16	(66,324)
Changes in currency translation reserves		(34,703)
Purchase of subsidiaries		(8,520,000)
Net book value of tangible assets sold	15	5,422
Net cash used in investing activities		(3,533,102)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank borrowings raised	6	24,000,000
Repayment of borrowings	6	(3,469)
Change in minority interest		(2,118,884)
Other new borrowings raised	10	36,370,000
Net cash provided by financing activities		58,247,647
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>45,434,368</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>4</b>	<b>6,187,595</b>
Effect of foreign exchange rate changes on cash and cash equivalents		221,973
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>		<b>51,843,936</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

## 1. ORGANIZATION AND OPERATIONS OF THE GROUP

### İş Yatırım Menkul Değerler A.Ş.:

The purpose of İş Yatırım Menkul Değerler A.Ş. ("the Company") is to perform capital market activities in accordance with its Articles of Association and Capital Markets Law number 2499 as modified by Law number 3794. In this respect, the Company obtained the establishment permission through the Capital Market Board at its meeting number 51-1515 dated 5 December 1996.

The Company and its consolidated subsidiaries are referred to as "the Group" in this report.

The operations of the equity participations and subsidiaries included in the consolidation are stated below:

### Camiş Menkul Değerler A.Ş.:

The purpose of this subsidiary is to perform capital market activities in accordance with its Articles of Association and Capital Markets Law and related regulation. In this respect, the subsidiary is acting as a securities brokerage for Şişecam Group in the capital market activities and established in 1984.

### İş Yatırım Ortaklığı A.Ş.:

The purpose of this subsidiary is to perform capital market activities in accordance with its Articles of Association and Capital Markets Law and related regulation.

### İş Portföy Yönetimi A.Ş.:

This equity participation is registered with the Istanbul Trade Registry on 23 September 2000 and published in the Trade Registry Gazette with number 5168 on 6 November 2000. Its purpose is to perform capital market activities in accordance with its Articles of Association and Capital Markets Law and related regulation. This participation offers only portfolio management and investment consultancy services within the context of capital market activities to institutional investors.

### İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.:

The activities of this equity participation are mainly making long-term investments in entrepreneurship founded or will be found in Turkey with development potential and requiring capital.

### Maxis Securities Ltd.

The subsidiary has been established with the official registration to "The Official Seal of the Registrar of Companies" on 8 August 2005 in address of 8 Prince Street London. The capital payment of the subsidiary amounted to GBP 500,000 was made on 29 September 2005. The purpose of the subsidiary is to perform profitable activities in international capital markets.

## 2. BASIS OF THE FINANCIAL STATEMENTS

The Capital Market Board ("CMB") has published Communiqué No: XI/25 "Communiqué on Capital Market Accounting Standards" ("Communiqué No: XI/25") on 15 November 2003. This Communiqué is applicable commencing from the first interim financial statements which will be prepared after 1 January 2005.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

The Group maintains its books of account and prepares its statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and tax legislation. The accompanying financial statements include adjustments and reclassifications to the statutory records in accordance with accounting standards issued by CMB Communiqué No: XI/25.

The Group's financial statements were prepared in accordance with the CMB rules for accounting and reporting (CMB Accounting Standards).

### Basis of Preparation of Financial Statements:

Communiqué No: XI/25 issued by the CMB, provides a detailed set of accounting principles. The Communiqué declared that as an alternative the compliance with the accounting standards issued by the International Accounting Standards Board (IASB) and the International Accounting Standards Committee (IASC) will be counted as in compliance to the CMB Accounting Standards. The accompanying consolidated financial statements were prepared in accordance with the CMB's above Communiqué and with CMB's announcement on 20 December 2004 regarding the format of the financial statements and notes.

### Preparation of Financial Statements in Hyperinflationary Periods:

Restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, in accordance with CMB Communiqué No: XI/20 "Communiqué on the Principles of Preparation of Financial Statements in Hyperinflationary Periods" ("CMB Communiqué No: XI/20") for the financial statements prepared before 1 January 2005. CMB Communiqué No: XI/20 requires that consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

CMB resolved in the meeting numbered 11/367 dated 17 March 2005 that hyperinflationary period, as defined in the Communiqué No: XI/20 paragraph 6 and the Communiqué No: XI/25 paragraph 375 is over. In addition, the other criteria regarding the continuation of hyperinflationary period deemed to be no longer valid and therefore, preparation of financial statements according to inflation accounting has been ceased in 2005 and inflation accounting has not been applied in the accompanying consolidated financial statements for the year ended 31 December 2005.

Group's consolidated financial statements prepared as of 31 December 2004 included the restatement adjustments to compensate for the effect of changes in the general purchasing power of the Turkish Lira in accordance with CMB Communiqué No: XI/20. CMB Communiqué No: XI/20 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

Restatement adjustments as of 31 December 2004 have been made according to wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Such index and the conversion factors used to restate the accompanying financial statements as of 31 December 2004 are given below:

	Index	Conversion Factor
31 December 2001	4,951.7	1.697155
31 December 2002	6,478.8	1.297123
31 December 2003	7,382.1	1.138402
31 December 2004	8,403.8	1.000000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

The annual change in the Turkish Lira exchange rate against the US Dollar can be compared with the rates of general price inflation in Turkey according to the WPI as set out below:

Year	2005	2004	2003	2002	2001	2000
Currency Devaluation US\$ - (%)	(0.02)	(3.9)	(14.6)	13.5	114.3	24.4
WPI Inflation - (%)	4.5	13.8	13.9	30.8	88.6	32.7

At 31 December 2005 the exchange rate announced by the Turkish Central Bank was NTL 1.3418 = US\$ 1 (31 December 2004: NTL 1.3421 = US\$ 1).

The main guidelines as per the Communiqué No: XI/20 as of 31 December 2004 is as follows.

- All balance sheet amounts as of 31 December 2004 expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI).
- As of 31 December 2004, monetary assets and liabilities were not restated because they are already expressed in terms of the measuring unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- As of 31 December 2004 non-monetary assets and liabilities were restated by applying, to the initial acquisition cost and any accumulated depreciation, the change in the general price index from the date of acquisition or initial recording to the balance sheet date. Hence, property, plant and equipment, investments and similar assets are restated from the date of their purchase, not to exceed their market value. Depreciation is calculated at their restated amounts. The components of shareholders' equity are restated by applying the applicable general price index from the dates when components were contributed or otherwise arose.
- As of 31 December 2004 all items in the statement of income were restated by applying the relevant conversion factors from the dates when the income and expense items were initially recorded in the consolidated financial statements, except for restatement of certain specific income statement items which arise from the restatement of non-monetary assets and liabilities like amortization, gain or loss on sale of fixed assets which are included as restated values.
- The gain or loss on the net monetary position as of 31 December 2004 was the result of the effect of general inflation and is the difference resulting from the restatement of non-monetary assets, shareholders' equity and income statement items. The gain or loss on the net monetary position was included in net income.

### New Turkish Lira:

A new law number 5083 on the Monetary Unit of the Republic of Turkey was enacted with effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish Republic, the Turkish Lira ("TL"), to form a new currency the New Turkish Lira ("NTL"). Thus 1 NTL = TL 1,000,000. The New Turkish Lira is divided into 100 New Turkish cents ("YKr"). As per the CMB decision MSD-10/832-43399 dated 1 December 2004, the financial statements to be publicly announced in 2005 should be prepared in NTL monetary unit including comparatives. Accordingly, the accompanying consolidated financial statements are presented in NTL.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### Consolidation:

The accompanying consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries prepared in accordance with CMB's Communiqué No: XI/25. Assets, liabilities, shareholder's equities, all profit and losses in the financial statements of the parent company and its subsidiaries within the consolidation scope are combined and necessary adjustments are made in accordance with the consolidation principles. The shares in the shareholders' equity and income statement which belong to third parties are separately disclosed as minority interest by taking the shares of the subsidiaries owned by the parent company into consideration.

The Company's equity participations are initially recorded at cost. Under the equity method, investor's share in the net assets of the investee company are reflected to the financial statements by increasing or decreasing the initial cost and the investor's share in the investee company's results of operations is recognized in the consolidated statement of income.

The subsidiaries and affiliates, which are fully consolidated and accounted under the equity method in the accompanying consolidated financial statements, are as follows.

Subsidiaries	31 December 2005	31 December 2004	Affiliates	31 December 2005	31 December 2004
	%	%		%	%
Camiş Menkul Değerler A.Ş.	99.79	99.79	İş Portföy Yönetimi A.Ş.	20.00	20.00
İş Yatırım Ortaklığı A.Ş. (*)	19.60	9.60	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	20.80	20.80
Maxis Securities Ltd.	100.00	-			

(\*) This enterprise is fully consolidated, due to the parent's power to exercise control over the financial and operating policy decisions of the investee.

### Goodwill:

On acquisition of an investment any difference between the cost of investment and Company's share of net fair value of the investee's identifiable assets, liabilities and contingent liabilities are accounted as positive or negative goodwill at consolidation. Positive and negative goodwill is carried in the balance sheet at cost less accumulated amortizations and impairment losses after the initial recognition.

In this respect, goodwill, which is recognized for each affiliate or subsidiary, is carried under "Positive / (Negative) Goodwill - net" account in assets of the consolidated balance sheet. Positive and negative goodwill is amortized in 20 years.

Recorded identifiable assets, liabilities and contingent liabilities represent the identifiable assets, liabilities and contingent liabilities of the investment on the acquisition date.

Positive or negative goodwill represents the residual portion of the initial acquisition cost after recognition of the identifiable assets, liabilities and contingent liabilities of an investment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

Comparative information and adjustments made in previous periods' consolidated financial statements:

The adjustments below have been made to the Group's consolidated opening financial statements as of 31 December 2004 in accordance with CMB Communiqué No: XI/25.

<u>Adjustment</u>	<u>Amount</u>
Consolidation adjustment	(4,906,050)
Adjustment for increase in value of securities available for sale	3,075,121
Marketable securities adjustment	2,147,186
Retirement pay adjustment	702,316
Deferred tax adjustment	(247,613)
<u>Total</u>	<u>770,960</u>

The Company has applied Communiqué No: XI / 25 for the first time to its interim consolidated financial statements as of 31 March 2005 and reprepared its 31 December 2004 opening consolidated financial statements in accordance with the same Communiqué. However, the Company has revisited the adjustments and reclassifications as of 31 December 2004 in accordance with CMB Communiqué No: XI / 25 during the preparation of its consolidated financial statements as of 31 December 2005. In this respect, the shareholders' equity total as at 31 December 2004 disclosed as NTL 102,142,033 in its interim consolidated financial statements is adjusted as NTL 105,217,154 in the accompanying financial statements.

### Offsetting:

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used to prepare the accompanying financial statements are as follows:

#### a. Revenue Recognition:

Revenue is reflecting the gross amount of economic benefit which the Group has realized from its ordinary activities.

#### b. Tangible Assets:

Property, plant and equipment purchased before 1 January 2005 are carried at indexed historical cost and purchases in 2005 are carried at historical cost, less accumulated depreciation and impairment.

Property, plant and equipment are depreciated principally on a straight-line basis considering expected useful lives, acquisition and assembly dates. Expected useful lives which have been used by the Group are summarized below:

Buildings	50 years
Machinery and equipment	3-4-5 years
Motor vehicles, furniture and fixtures	4-5-10 years
Leasehold improvements	4-5-10 years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### c. Intangible Assets:

Intangible assets that are acquired before 1 January 2005 are carried with their indexed cost as of 31 December 2004; and intangible assets that are acquired after 1 January 2005 are carried with their cost, less accumulated amortization and impairment.

Intangible assets are amortized principally on a straight-line basis considering expected useful lives. Related intangible assets are depreciated when they are ready to use. The useful lives used for intangible assets are 5 years.

### d. Impairment of Assets:

At each balance sheet date, assets other than deferred tax and financial assets are investigated whether there is an indication which requires impairment of the asset or not. If there is such an indication, recoverable amount of that asset is estimated. If the carrying amount of an asset exceeds its recoverable amount, allowance for impairment should be provided. Recoverable amount of an asset is the higher of an asset's net selling price and its value in use. 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 the end of its life.

### e. Borrowing Costs:

All borrowing costs are recorded in the income statement in the period in which they are incurred.

### f. Financial Instruments:

Financial instruments include financial assets and financial liabilities. Financial instruments constitute the basis of Group's commercial operations and activities. These instruments and associated risks constitute the majority of the Group's total risk. Financial instruments have the ability to generate, affect and decrease credit, collections and price risk over financial statements. The Company trades in financial instruments for customer facilitation and as principal.

After initial recording, all financial assets are valued at their fair values other than trade receivables, held-to-maturity investments, assets that do not have a quoted market price in an active market and whose fair values can not be reliably estimated. Financial assets which are not valued at their fair values with certain maturities are recorded at their discounted values and assets without certain maturities are recorded at cost. Valuations of financial assets are checked periodically for the allowance for impairment.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Market value is the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value.

Balances with banks and receivables are important financial instruments which would have negative effects on the financial structure of the Group if the other party failed to comply with the terms and conditions of the agreement.

The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature.

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 fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

**Cash and cash equivalents:** Cash and bank balances denominated in foreign currencies are translated at year-end exchange rates. The carrying amounts of the remaining cash and bank balances are reasonable estimates of their fair value.

**Marketable securities:** Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

**Trade receivables and trade payables:** Book values of the trade receivables along with the related allowances for uncollectibility and trade payables balances are estimated to be their fair values.

**Due to/from related parties:** The carrying value of due to and due from related parties are estimated to be their fair values.

**Borrowings:** Interest-bearing bank loans are subject to the interest rates which are fixed on an entry value basis. Bank loans are recorded at the proceeds received. Finance charges are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

### Credit Risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

### Price Risk

Price risk is the fluctuations in interest rates, exchange rates and the price of marketable securities and financial agreements adversely affecting the Group. The main risks for the Group are the changes in interest rates and exchange rates.

### Liquidity Risk

The Group is generally raising funds by liquidating its short-term financial instruments such as collecting its receivables and disposing of marketable securities. The Group's proceedings from these instruments generally approximate their fair values.

### g. Mergers and Acquisitions:

None.

### h. Foreign Currency Transactions:

In the statutory accounts of the Group, transactions in foreign currencies (currencies other than New Turkish Lira) are translated into New Turkish Lira at the rates of exchange ruling at the transaction dates. Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in the statements of income.

### i. Earnings per Share:

Earning per share is the portion of the net profit or loss that accounts for the common share, which divided by the weighted average number of common shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### i. Subsequent Events:

Subsequent events covers any events which arise between the reporting date and the balance sheet date, even occurred after any declaration of the net profit for the period or specific financial information publicly disclosed.

The Group adjusts its consolidated financial statements if such subsequent events arise which require to adjust financial statements.

### j. Provisions, Contingent Liabilities and Contingent Assets:

Provision is provided and disclosed on the consolidated financial statements, if there is a reliably measurable legal or implicit liability regarding to the previous events and this liability requires an outflow of economic resource of the Group.

### k. Change in Accounting Policies, Accounting Estimates and Errors:

Changes in accounting policies or fundamental accounting errors are applied retrospectively and the consolidated financial statements for the prior periods are restated. If changes in accounting estimates relate only for one period, changes are applied in the current period but if changes in estimates relate more than one period, changes are applied both in the current and following periods prospectively.

### l. Financial Lease:

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

### m. Related Parties:

For the purpose of accompanying consolidated financial statements, shareholders of İş Yatırım Menkul Değerler A.Ş. and other companies owned by the shareholders, their directors and key management personnel and any companies in which they are known to be related, are considered and referred to as related parties.

### n. Segmental Information:

Since the Group predominantly operates in Turkey and only in marketable securities sector, the accompanying financial statements do not include segmental information.

### o. Discontinued Operations:

None.

### p. Government Grant and Incentives:

None.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### r. Taxation and Deferred Tax:

Taxes on income for the period comprise of current tax and the change in deferred taxes.

Provision is made in the accompanying consolidated financial statements for the estimated corporate and income tax and other liabilities based on the Group's results for the period. Current taxation is calculated from the statutory accounting profit by adding back non-deductible expenses and taking into consideration of other income exemptions.

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are offset by the amount that is not recoverable.

### s. Employee Benefits / Retirement Pay Provision:

Under Turkish Law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. The total provision represents the vested benefit obligation as at the balance sheet date. Future retirement payments are discounted to their present value at the balance sheet date and reflected to the accompanying consolidated financial statements.

### t. Pension Obligations:

None.

### u. Agricultural Operations:

None.

### v. Statement of Cash Flows:

The statement of cash flows is reported by classifying the items such as operating, investment and financing activities. Cash on hand represents the items such as cash, banks etc. which are held for the current liabilities and not used for investing and other purposes.

### y. Marketable Securities:

The Group designates its securities portfolio as follows:

#### Securities held for trading:

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their price or dealer's margin. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. Gains or losses on held for trading securities are included in net profit or loss for the period in which they arise.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### Securities held to maturity:

Held to maturity investments are securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Held to maturity securities with fixed maturities are measured at amortized cost using the effective interest rate method.

### Securities available for sale:

Available for sale securities are those that are not (a) held-to-maturity investments or (b) securities held for trading. Subsequent to acquisition, available for sale securities are valued at their fair value if reliably measurable. Otherwise, they are accounted for at amortized cost. For available for sale investments, gains and losses are recognized in the statement of income and gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

### z. Derivative Financial Instruments and Hedge Accounting:

The Group has derivative financial instrument transactions as of the balance sheet date. These transactions predominantly consist of positions related to forward contracts and contracts indexed to Istanbul Stock Exchange ("ISE") Index. The Group uses foreign currency forward contracts and futures to hedge its risks associated with market fluctuations in connection with trading portfolio transactions. The Group participates in derivative transactions indexed to foreign currency and securities, also performs brokerage activities relating to derivative transactions on behalf of its customers.

As of the balance sheet date, transactions related to derivative financial instruments are entered into for trading purposes and measured at fair value. Interest and foreign currency gains and losses on these instruments are accounted for in "Other operating income (net)" in the statement of income.

## 4. CASH AND CASH EQUIVALENTS

	31 December 2005	31 December 2004
	NTL	NTL
Cash	2,811	3,175
Demand deposits	566,854	6,184,416
Time deposits	51,274,271	-
Other liquid assets	-	4
	<u>51,843,936</u>	<u>6,187,595</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 5. MARKETABLE SECURITIES (NET)

	31 December 2005	31 December 2004
	NTL	NTL
Securities held for trading	204,449,158	193,433,112
Securities available for sale	18,586,558	12,933,009
Securities held to maturity	-	-
	<u>223,035,716</u>	<u>206,366,121</u>

	31 December 2005		
	Cost	Fair Value	Carrying Value
	NTL	NTL	NTL
<u>Securities held for trading</u>			
Equity shares	72,432,892	87,622,575	87,622,575
Reverse repo	5,282,532	5,287,010	5,287,010
Government bonds	88,972,300	91,502,138	91,502,138
Treasury bills	19,012,021	19,651,432	19,651,432
Foreign currency securities	327,261	332,018	332,018
Investment funds	53,958	53,985	53,985
	<u>186,080,964</u>	<u>204,449,158</u>	<u>204,449,158</u>

	31 December 2004		
	Cost	Fair Value	Carrying Value
	NTL	NTL	NTL
<u>Securities held for trading</u>			
Equity shares	71,640,771	75,661,755	75,661,755
Reverse repo	1,840,357	1,842,219	1,842,219
Government bonds	69,618,094	69,515,502	69,515,502
Treasury bills	43,304,879	46,223,491	46,223,491
Foreign currency securities	198,751	190,145	190,145
	<u>186,602,852</u>	<u>193,433,112</u>	<u>193,433,112</u>

Marketable securities given as guarantee as of the balance sheet date are as follows.

	31 December 2005		
	Nominal	Cost	Carrying Value
	NTL	NTL	NTL
İMKB Takas ve Saklama Bankası A.Ş. (Stock Exchange Custody Bank)	13,216,797	12,164,719	13,019,274
<u>TOTAL</u>	<u>13,216,797</u>	<u>12,164,719</u>	<u>13,019,274</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)**

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

	31 December 2004		
	Nominal NTL	Cost NTL	Carrying Value NTL
Turkish Central Bank (Open Market Operations)	4,750,000	5,555,952	4,986,495
CMB	3,600,000	3,865,490	3,839,672
İMKB Takas ve Saklama Bankası A.Ş. (Stock Exchange Money Markets)	2,000,000	2,488,385	2,125,040
Istanbul Stock Exchange (ISE)	50,500	53,514	52,333
<b>TOTAL</b>	<b>10,400,500</b>	<b>11,963,341</b>	<b>11,003,540</b>

	31 December 2005		31 December 2004	
	Share (%)	Amount NTL	Share (%)	Amount NTL
<b>Securities available for sale</b>				
TSKB Menkul Değerler Yatırım A.Ş.	0.55	42,038	0.55	42,038
Vadeli İşlem ve Opsiyon Borsası A.Ş.	6.00	647,435	6.00	467,435
Vadeli İşlemler Eğitim ve Danış. A.Ş.	1.69	20,618	1.69	20,618
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	1.64	15,932,904	1.64	10,459,355
İMKB Takas ve Saklama Bankası A.Ş.	0.97	1,943,563	0.97	1,943,563
		<b>18,586,558</b>		<b>12,933,009</b>

The Company has valued the equity shares of İş Gayrimenkul Yatırım Ortaklığı A.Ş. under securities available for sale, which have a cost value of NTL 7,384,234, with the market prices realized on Istanbul Stock Exchange ("ISE"). As a result of this valuation, the Company has accounted for the valuation increase amounted to NTL 8,548,670 (31 December 2004: NTL 3,075,121) under "Valuation Fund on Financial Assets" under shareholders' equity.

**6. BORROWINGS (NET)**

	31 December 2005	31 December 2004
	YTL	YTL
Short-term borrowings	24,067,744	3,469
	<b>24,067,744</b>	<b>3,469</b>

**7. TRADE RECEIVABLES AND PAYABLES (NET)**

	31 December 2005	31 December 2004
	NTL	NTL
<b>Trade receivables</b>		
Receivables from customers	988,049	11,619
Receivables from customers on margin trading	32,974,457	11,938,956
Doubtful receivables	-	221
Allowance for doubtful receivables (-)	-	(221)
Deposits and guarantees given	222,588	-
Other trade receivables	1,138,196	954,964
Receivables from clearing houses	23,441,548	-
Receivables on derivatives transactions	10,969,050	-
	<b>69,733,888</b>	<b>12,905,539</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

An allowance has been made for estimated irrecoverable amounts. This allowance has been determined by reference to past experience. Movement in the allowance for doubtful receivables is as follows:

	2005 NTL	2004 NTL
Opening balance, 1 January	221	252
Collections during the period	(221)	-
Monetary gain	-	(31)
Closing balance, 31 December	-	221

	31 December 2005 NTL	31 December 2004 NTL
<b>Trade payables</b>		
Payables to customers	25,245,850	33,739
Payables to clearing houses	1,589,095	-
Payables on funds obtained for repo transactions	3,979,300	28,880,286
Other trade payables	6,830,032	573,647
	<b>37,644,277</b>	<b>29,487,672</b>

As of the balance sheet date, other trade payables consist of liabilities arising from the Company's short selling transactions of equity shares amounted to NTL 4,823,846.

### 8. FINANCE LEASE RECEIVABLES AND PAYABLES (NET)

As of 31 December 2005 and 31 December 2004, there are no finance lease receivables and payables.

### 9. DUE FROM / TO RELATED PARTIES (NET)

	31 December 2005 NTL	31 December 2004 NTL
<b>Due from related parties</b>		
İş Finansal Kiralama A.Ş.	-	23,648
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	46,519	-
Due from personnel	471,890	412,263
İş Merkezleri Yönetim ve İşletim A.Ş.	1,114	1,114
T. İş Bankası A.Ş.	101,887	-
	<b>621,410</b>	<b>437,025</b>

#### Bank balances with related parties

T. İş Bankası A.Ş.	51,705,964	571,910
	<b>51,705,964</b>	<b>571,910</b>

#### Due to related parties

Anadolu Anonim Türk Sigorta A.Ş.	17,158	13,920
Şişecam Sig. ve Aracılık Hizm. A.Ş.	331	331
T. Şişe ve Cam Fabrikaları A.Ş.	7,508	-
Trakya Cam Sanayi A.Ş.	-	1,343
İş Merkezleri Yönetim ve İşletim A.Ş.	1,354	-
Other	20	20
	<b>26,371</b>	<b>15,614</b>

#### Due to related parties (long-term)

Payables to shareholders	631	505
	<b>631</b>	<b>505</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

	2005 NTL
<b>Fund management and brokerage income</b>	
T. İş Bankası A.Ş.	8,171,496
Camiş Sigorta Hizmetleri A.Ş.	4,849
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	27,005
	<u>8,203,350</u>
<b>Letter of guarantee commissions</b>	
T. İş Bankası A.Ş.	11,656
	<u>11,656</u>
<b>Custody commissions</b>	
T. İş Bankası A.Ş.	3,554
	<u>3,554</u>
<b>Interest on borrowings</b>	
T. İş Bankası A.Ş.	28,408
	<u>28,408</u>
<b>Finance lease interest</b>	
İş Finansal Kiralama A.Ş.	2,221
	<u>2,221</u>
<b>Dividends received</b>	
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	290,477
T. İş Bankası A.Ş.	5,060
	<u>295,537</u>
<b>Personnel health insurance expenses</b>	
Anadolu Anonim Türk Sigorta Şirketi	158,086
	<u>158,086</u>
<b>Office insurance expenses</b>	
Anadolu Anonim Türk Sigorta Şirketi	39,798
	<u>39,798</u>
<b>Commission income from related parties</b>	
İş Finansal Kiralama A.Ş.	1,677
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	202,245
	<u>203,922</u>
<b>Commission expenses to related parties</b>	
T. İş Bankası A.Ş.	424,235
	<u>424,235</u>
<b>Rent expenses to related parties</b>	
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	1,296,524
	<u>1,296,524</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

	2005
<u>Administrative expenses to related parties</u>	<u>NTL</u>
İş Merkezleri Yönetim ve İşletim A.Ş.	405,980
	<u>405,980</u>
<u>Network providing expenses to related parties</u>	
İş Net Elektronik Hizmetler A.Ş.	24,326
	<u>24,326</u>

### 10. OTHER RECEIVABLES AND PAYABLES (NET)

	31 December 2005	31 December 2004
<u>Other short-term receivables</u>	<u>NTL</u>	<u>NTL</u>
Prepaid taxes and funds	5,418,438	3,899,291
Receivables from Stock Exchange Money Market	5,863,977	200,087
Other various receivables	2,111	973,638
	<u>11,284,526</u>	<u>5,073,016</u>
<u>Other liabilities</u>		
Accrued expenses	722,898	1,824,246
Taxes and dues payable	976,169	1,063,770
	<u>1,699,067</u>	<u>2,888,016</u>
<u>Other financial liabilities</u>		
Payables to Stock Exchange Money Market	36,417,505	-

### 11. DEFERRED TAX ASSETS AND LIABILITIES (NET)

#### Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its consolidated financial statements as reported in compliance with Communiqué No: XI/25 and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for Communiqué No: XI/25 and tax purposes and are set out below.

The temporary differences subject to deferred tax are as follows;

	31 December 2005	31 December 2004
<u>Temporary differences subject to deferred tax</u>	<u>NTL</u>	<u>NTL</u>
Useful life differences on tangible and intangible assets	(852,235)	(1,440,663)
Retirement pay provision	720,829	621,230
Valuation of marketable securities	(42,583)	(5,942)
Accrued expenses on derivatives transactions	500,525	-
	<u>326,536</u>	<u>(825,375)</u>
<u>Deferred tax assets / (liabilities)</u>		
Useful life differences on tangible and intangible assets	(255,670)	(432,199)
Retirement pay provision	216,248	186,369
Valuation of marketable securities	(12,775)	(1,783)
Accrued expenses on derivatives transactions	150,158	-
	<u>97,961</u>	<u>(247,613)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)**

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

	2005 NTL
Movement of deferred tax asset / (liability)	
Opening balance, 1 January	(247,613)
Monetary gain	-
Deferred tax benefit / (charge) (Note 37)	345,574
Closing balance, 31 December	97,961

**12. OTHER CURRENT / LONG-TERM ASSETS AND LONG-TERM LIABILITIES**

	31 December 2005 NTL	31 December 2004 NTL
Other current assets		
Prepaid expenses	244,809	107,471
Income accruals on derivatives transactions	762,500	-
	1,007,309	107,471

**13. FINANCIAL ASSETS (NET)**

	31 December 2005		31 December 2004	
	Share (%)	Amount NTL	Share (%)	Amount NTL
İş Portföy Yönetimi A.Ş.	20.00	3,495,056	20.0	2,496,003
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (*)	20.80	15,906,000	20.8	15,887,925
		19,401,056		18,383,928

(\*) İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. is initially accounted under the equity method and an allowance by NTL 2,630,916 for the diminution in value between market value and equity method is provided in the accompanying consolidated financial statements (31 December 2004: NTL 553,197).

**14. POSITIVE / (NEGATIVE) GOODWILL (NET)**

	31 December 2005 NTL	31 December 2004 NTL
Camiş Menkul Değerler A.Ş.	(1,595,207)	(1,595,207)
İş Yatırım Ortaklığı A.Ş.	(6,756,934)	(3,424,599)
	(8,352,141)	(5,019,806)
Accumulated amortization	761,938	517,325
	(7,590,203)	(4,502,481)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 15. TANGIBLE ASSETS (NET)

Acquisition cost	Machinery and equipment NTL	Vehicles NTL	Furniture and fixtures NTL	Leasehold improvements NTL	Other tangible assets NTL	Total NTL
Opening balance, 1 January 2005	2,671,486	216,957	1,052,521	3,314,241	4,126,479	11,381,684
Additions	294,366	-	126,316	5,618	-	426,300
Disposals	(7,926)	(181,165)	-	-	-	(189,091)
Closing balance, 31 December 2005	2,957,926	35,792	1,178,837	3,319,859	4,126,479	11,618,893
Accumulated depreciation						
Opening balance, 1 January 2005	(1,699,443)	(204,536)	(581,269)	(1,678,569)	(3,651,777)	(7,815,594)
Charge for the period	(509,049)	(11,228)	(167,599)	(475,014)	(433,228)	(1,596,118)
Disposals	2,504	181,165	-	-	-	183,669
Closing balance, 31 December 2005	(2,205,988)	(34,599)	(748,868)	(2,153,583)	(4,085,005)	(9,228,043)
Net book value as of 31 December 2004	972,043	12,421	471,252	1,635,672	474,702	3,566,090
Net book value as of 31 December 2005	751,938	1,193	429,969	1,166,276	41,474	2,390,850

### 16. INTANGIBLE ASSETS (NET)

Acquisition cost	Rights NTL	Total NTL
Opening balance, 1 January 2005	708,303	708,303
Additions	66,324	66,324
Disposals	-	-
Closing balance, 31 December 2005	774,627	774,627
Accumulated amortization		
Opening balance, 1 January 2005	(433,109)	(433,109)
Charge for the period	(142,201)	(142,201)
Disposals	-	-
Closing balance, 31 December 2005	(575,310)	(575,310)
Net book value as of 31 December 2004	275,194	275,194
Net book value as of 31 December 2005	199,317	199,317

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 17. ADVANCES RECEIVED

As of 31 December 2005 and 31 December 2004, there are no advances received.

### 18. RETIREMENT BENEFITS

As of 31 December 2005 and 31 December 2004, there is no retirement plan.

### 19. PROVISIONS

	31 December 2005	31 December 2004
	NTL	NTL
<u>Short-term</u>		
Provision for corporate tax (Note 37)	7,899,499	5,523,706
Expense accruals on derivatives transactions	1,263,025	-
Other liabilities and provisions	279,307	280,300
	<u>9,441,831</u>	<u>5,804,006</u>
	31 December 2005	31 December 2004
	NTL	NTL
<u>Long-term</u>		
Retirement pay provisions	736,656	632,492
	<u>736,656</u>	<u>632,492</u>

Under Turkish Law, the Group is required to pay employment termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

The provision is made in respect of all eligible employees, at a rate of 30 days gross pay for each year of service. The retirement pay provision ceiling as at the balance sheet date, is subject to a maximum of NTL 1,727.15 per month for the year 2005 (31 December 2004: NTL 1,574 per month).

Communiqué No: XI/25, Part 29 ("Employee Benefits") clarify the journalization of this provision taking into consideration that this liability is for future periods:

- An expected inflation rate and an appropriate discount rate should both be determined, the net of these being the real discount rate. This real discount rate should be used to discount future retirement payments to their present value at the balance sheet date.
- The anticipated rate of forfeitures should be considered.

Consequently, in the accompanying consolidated financial statements provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

Retirement pay provision have been calculated with annual inflation rate of 6.175% (2004: 10.00%) and discount rate of 12% (2004: 16.00%) resulting in approximately 5.49% (2004: 5.45%) of real discount rate.

	2005 NTL	2004 NTL
Provision as of 1 January	632,492	650,308
Charge for the period	259,219	119,392
Retirement pay provisions paid	(155,055)	(60,000)
Monetary gain	-	(77,208)
<b>Provision as of 31 December</b>	<b>736,656</b>	<b>632,492</b>

### 20. MINORITY INTEREST

The minority interest as of 31 December 2005 is amounted to NTL 124,928,895 (31 December 2004: NTL 104,502,957). The minority interest occurred during the period between 1 January 2005 and 31 December 2005 is amounted to NTL 34,397,157 and disclosed separately from the net profit for the period in the accompanying consolidated financial statements.

	2005 NTL
Opening balance, 1 January 2005	104,502,957
Minority interest of period profit	34,397,157
Decrease in minority interest due to subsidiary purchase	(11,259,219)
Dividends paid	(2,712,000)
<b>Closing balance, 31 December 2005</b>	<b>124,928,895</b>

### 21. CAPITAL / TREASURY STOCK

The capital structure of İş Yatırım Menkul Değerler A.Ş. is as follows:

	31 December 2005		31 December 2004	
	Share %	Amount NTL	Share %	Amount NTL
<b>Shareholders</b>				
T. İş Bankası A.Ş. (A Group)	0.15	150,000	0.30	150,000
T. İş Bankası A.Ş. (B Group)	91.85	88,906,000	91.70	41,250,000
Other	8.00	7,744,000	8.00	3,600,000
<b>Total</b>	<b>100.00</b>	<b>96,800,000</b>	<b>100.00</b>	<b>45,000,000</b>

The capital of the Company is NTL 96,800,000 (Ninety six million eight hundred thousands New Turkish Lira). The capital consists of 96,800,000 (Ninety six million eight hundred thousands) shares of NTL 1 (One New Turkish Lira) each. NTL 150,000 of the shares is Group A and NTL 96,650,000 is Group B. According to the Articles of Association, additional Group A shares cannot be issued in new capital increases. The capital increase during the period amounted to 51,800,000 (Fifty one million eight hundred thousands New Turkish Lira) and incorporated from gain on sale of equity participations by NTL 1,217,909 and shareholders' equity inflation restatement differences by NTL 50,582,091. The members of the Board of Directors and the statutory auditors are selected among the nominees determined by A Group shareholders.

The parent company's shares held by the Camış Menkul Değerler A.Ş. amounted to NTL 215,738 and presenting 0.21% of the parent's capital are eliminated as part of the capital- investment eliminations and presented in "Treasury Stock" account under the shareholders' equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 22. CAPITAL RESERVES

As of 31 December 2005 and 31 December 2004, capital reserves are as follows:

	31 December 2005	31 December 2004
	NTL	NTL
Premium in excess of par	-	-
Gain on cancellation of equity shares	-	-
Revaluation fund	-	-
Valuation fund on financial assets	8,548,670	3,075,121
Shareholders' equity inflation restatement differences	133,159	40,443,381
	<u>8,681,829</u>	<u>43,518,502</u>

### 23. PROFIT RESERVES

As of 31 December 2005 and 31 December 2004, profit reserves are as follows:

	31 December 2005	31 December 2004
	NTL	NTL
Legal reserves	322,076	-
Statutory reserves	-	-
Extraordinary reserves	35,372	-
Special reserves	819,476	38,415
Gain on sale of properties and equity participations which will be transferred to capital	-	1,217,909
Currency translation reserve	(34,703)	-
	<u>1,142,221</u>	<u>1,256,324</u>

### 24. RETAINED EARNINGS

	31 December 2005	31 December 2004
	NTL	NTL
Retained earnings	4,247,688	646,472
	<u>4,247,688</u>	<u>646,472</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 25. FOREIGN CURRENCY POSITION

Foreign currencies and receivables and payables denominated in foreign currencies as of 31 December 2005 are as follows:

Bank Deposits	Amount	Currency	FX Rate	NTL
Shua Capital	280,659	UAED	0.3653	102,525
T. İş Bankası A.Ş.	7,360	US Dollars	1.3418	9,876
T. İş Bankası A.Ş.	10,044	EURO	1.5875	15,945
T. İş Bankası A.Ş.	576,089	GBP	2.3121	1,331,975
				<u>1,460,321</u>
<b>Marketable Securities</b>				
Foreign currency securities	103,691	US Dollars	1.3418	139,133
Foreign currency securities	121,503	EURO	1.5875	192,886
Equity shares	15,624	EURO	1.5875	24,803
Equity shares	88,501	US Dollars	1.3418	118,751
				<u>475,573</u>
<b>Total assets</b>				<u>1,935,894</u>
<b>Total liabilities</b>				<u>-</u>
<b>Net foreign currency position</b>				<u>1,935,894</u>

Foreign currencies and receivables and payables denominated in foreign currencies as of 31 December 2004 are as follows:

Bank Deposits	Amount	Currency	FX Rate	NTL
Türkiye İş Bankası A.Ş.	230,142	US Dollars	1.3421	308,874
Refco LLC	45,379	US Dollars	1.3421	60,903
Türkiye İş Bankası A.Ş.	48,553	EURO	1.8268	88,696
				<u>458,473</u>
<b>Marketable Securities</b>				
Foreign currency securities	104,086	EURO	1.8268	190,145
Equity shares	298,338	EURO	1.8268	545,004
				<u>735,149</u>
<b>Total assets</b>				<u>1,193,622</u>
<b>Total liabilities</b>				<u>-</u>
<b>Net foreign currency position</b>				<u>1,193,622</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)**

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

**26. GOVERNMENT GRANTS AND INCENTIVES**

As of 31 December 2005 and 31 December 2004, there are no government grants and incentives.

**27. COMMITMENTS AND CONTINGENCIES**

	31 December 2005	31 December 2004
	NTL	NTL
Letters of guarantee given	72,165,943	22,267,167

There are two pending litigation cases filed against the Company as of the balance sheet date. The Company has provided the required provision for the litigation consideration amounting to NTL 278,701 (31 December 2004: NTL 278,701).

The Company has foreign currency purchase commitments amounted to US\$ 62,000,000 and EUR 2,050,000 and foreign currency sale commitments amounted to US\$ 22,000,000 and EUR 800,000 as result of its derivatives agreements.

**28. MERGERS AND ACQUISITIONS**

As of 31 December 2005 and 31 December 2004, there is no merger or acquisition.

**29. SEGMENTAL INFORMATION**

There are no segments as stated in Communiqué No: XI/25, Part 22.

**30. SUBSEQUENT EVENTS**

In order to invest in Gelişen İşletmeler Piyasaları A.Ş. for an amount of NTL 500,000, the Company paid the required call amount of NTL 125,000 on 1 March 2006 based on the Board of Directors decision dated 27 June 2005 and numbered 306.

The Company's Board of Directors decided to increase the capital of its subsidiary Maxis Securities Ltd. from GBP 500,000 to GBP 1,000,000 with the resolution numbered 352, dated 3 January 2006.

Based on the Board of Directors decision dated 27 October 2005 and numbered 335, a mutual fund named "İş Yatırım Menkul Değerler A.Ş. B Tipi Tahvil ve Bono Fonu" has been established with an initial fund assets value of NTL 50,000,000.

Commencing from 1 January 2006 the ceiling for gross pay for the retirement pay provision limit has been increased to NTL 1,770.62.

**31. DISCONTINUED OPERATIONS**

As of 31 December 2005 and 31 December 2004, there is no discontinued operation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 32. OPERATING INCOME (NET)

	2005 NTL
<b>Sales income (net)</b>	
Sales of equity shares	5,264,904,208
Sales of mutual funds	67,862,033
Sales of government bonds and treasury bills	23,686,498,803
	<u>29,019,265,044</u>
<b>Cost of sales</b>	
Purchases of equity shares	(5,247,968,049)
Purchases of mutual funds	(67,869,713)
Purchases of government bonds and treasury bills	(23,670,445,379)
	<u>(28,986,283,141)</u>
<b>Service income</b>	
Commission income on trading of equity shares	35,113,903
Commission income on trading of government bonds	901,602
Commission income on trading of derivatives	113,588
Consultancy and management fee income	7,766,680
Corporate finance income	3,860,995
Commission income on securities lending	60,920
Other service income	637,567
	<u>48,455,255</u>
Commission and service expenses (-)	(4,009,336)
Commission reimbursements to customers (-)	(10,777,561)
	<u>(14,786,897)</u>
<b>Service income (net)</b>	<u>33,668,358</u>
<b>Other operating income (net)</b>	
Accruals of the marketable securities (net)	16,546,444
Interest income from customers	3,139,559
Dividend income	1,966,122
Interest income from time deposits	1,911,445
Other income related to operations (net)	8,586,229
	<u>32,149,799</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 33. OPERATING EXPENSES

	2005 NTL
<u>Marketing, selling and distribution expenses (-)</u>	
Equity shares transaction and registration fees	(369,967)
Government bonds and treasury bills transaction and registration fees	(844,827)
Custody expenses	(53,437)
Other	(18,970)
	<u>(1,287,201)</u>
<u>General administrative expenses (-)</u>	
Personnel expenses	(14,409,438)
Board of directors remunerations	(654,000)
Retirement pay provision	(259,219)
Depreciation and amortization	(1,738,319)
Membership fees	(447,396)
Technical consulting expenses	(179,841)
Outsourcing expenses	(2,074,894)
Taxes and dues	(1,205,388)
Rent expenses	(1,906,519)
Consultancy expenses	(650,959)
Communication and IT expenses	(903,452)
Advertisement expenses	(1,161,097)
Amortization of goodwill	244,613
Transaction expenses paid to banks and other financial institutions	(15,784)
Entertainment expenses	(376,880)
Stationary expenses	(297,269)
Maintenance expenses	(133,597)
Other	(1,358,065)
	<u>(27,527,504)</u>
<u>Total operating expenses</u>	<u>(28,814,705)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 34. OTHER INCOME / EXPENSE AND PROFIT / LOSSES

	2005 NTL
Other revenues and profits	
Provisions released	671,095
Valuation increase of affiliate (İş Portföy Yönetimi A.Ş.)	999,053
Valuation increase of affiliate (İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.)	18,075
Other income	107,163
	<u>1,795,386</u>
Other expenses and losses (-)	
Prior period expenses and losses (-)	(1,785,509)
Agency commissions	(277,385)
Other expenses	(550,105)
	<u>(2,612,999)</u>

### 35. FINANCE EXPENSE (NET)

	2005 NTL
Finance expenses on short-term borrowings (-)	(39,340)
Interest expenses on Stock Exchange Money Market (-)	(1,366,227)
Foreign currency losses (-)	(3,349,101)
Foreign currency gains	3,956,011
Other finance expenses (-)	(11,214)
	<u>(809,871)</u>

### 36. NET MONETARY GAIN / (LOSS)

According to the decision of CMB dated 17 March 2005 and numbered 11/367, the application of inflation accounting has been ceased in 2005, therefore there is no monetary gain or loss in the accompanying consolidated statement of income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### 37. TAXES

#### Corporate Tax:

The Group is subject to Turkish Corporate Taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period.

Corporation tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

#### The Effective Rates of Tax are as follows:

In 2003: 30% (the funds contribution 10% was abolished for 2003).

In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004.)

In 2005: 30%

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003, to 33% for 2004 and 30% for 2005. 30% corporate tax rate will be applied for 2005 year advance tax calculations.

Losses can be carried forward for offset against future taxable income for up to 5 years. Losses cannot be carried back for offset against profits from previous periods.

In Turkey there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns by 15 April in the next year following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

#### Income Withholding Tax:

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Income withholding tax was also calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not. Such withholding tax has been removed in general. However, 19.8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years. Allowance carried forward to the following year is increased with WPI of the previous year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

### Inflation Adjusted Tax Calculation:

For 2003 and previous years, profit for the period on which taxation was being calculated, used to be uninflated balances except for the effect of the annual revaluation of the fixed assets and the depreciation calculated thereon. The Law 5024 published in the Official Gazette of 30 December 2003 numbered 25332 requires the application of inflation accounting in 2004 and the following periods provided that the inflation rate reaches the limits set out by the Law. As the conditions outlined in the related regulation are met the Group adjusted its 31 December 2004 financial statements and calculated its tax base over these financial statements. Since the conditions outlined are not met did not occur as of 31 December 2005 the Group did not adjust its current period tax base in accordance with the inflation accounting.

### Investment Trust Taxation:

In accordance with the Capital Markets Regulations, marketable securities in investment trusts which have at least 25% equity shares in their portfolio are classified as (A) Type, and the remaining trusts are classified as (B) Type.

Income generated from the portfolio management of the (A) Type investment trusts is exempt from both Corporate Tax and Income Withholding Tax. Similar income of (B) Type investment trusts is also exempt from Corporate Tax, yet is subject to 10% Income Withholding Tax (Corporate Tax Law Article 8/4 and Income Tax Law Article 94/6-2-i).

Since the Company's subsidiary İş Yatırım Ortaklığı A.Ş. is an (A) Type investment trusts, it does not have any tax liability on its income for the period. With the same reason, temporary differences arisen as of 31 December 2005 and 31 December 2004 are not taken into consideration in the calculation of deferred tax assets and liabilities in the accompanying consolidated financial statements.

In accordance with the 8<sup>th</sup> paragraph of 67<sup>th</sup> Provisional Article of Income Withholding Tax Law effective from 1 January 2006, portfolio income of investment trusts established according to the Capital Markets Regulations is exempt from Corporate Tax but subject to 15% Income Withholding Tax whether it is distributed or not as a dividend. Portfolio income taxed in accordance with the 67<sup>th</sup> Provisional Article of Income Withholding Tax Law will not be subject to Income Withholding Tax in accordance with the 94<sup>th</sup> Article of Income Withholding Tax Law.

Income generated from the initial disposal of equity shares acquired before 1 January 2006, and portfolio income arising from the trading or retention of government bonds and treasury bills issued before that date, which are exempt from Corporate Tax, will be subject to 0% (nil) Income Withholding Tax in accordance with the 94<sup>th</sup> Article of Income Withholding Tax Law in the case of those trusts with securities portfolio exceeding 25% or more equity shares, otherwise will be subject to 10% Income Withholding Tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005/(Continued)

(Amounts are expressed in New Turkish Lira ["NTL"] unless otherwise indicated.)

Income attributable to investment trusts established according to the Capital Markets Law, which is generated from the acquisition, disposal or retention of marketable securities as defined in the 13<sup>th</sup> paragraph of Income Withholding Tax General Communiqué Series No 257 will be subject to withholding tax according to the 1st and 4<sup>th</sup> paragraphs of the 67<sup>th</sup> Provisional Article of Income Withholding Tax Law.

Withholding taxes collected over income generated from the trading or retention of marketable securities of these institutions will be deducted from Income Withholding Taxes, which are calculated over portfolio income, and the surplus of undeducted taxes will be reimbursed to these institutions. This application is also applicable to taxes levied in accordance with 67<sup>th</sup> Provisional Article of Income Withholding Tax Law.

The deferred taxes and corporate taxes are as follows;

	2005 NTL
<b>Tax provision:</b>	
Current period tax provision	7,899,499
Deferred tax charge / (benefit)	(345,574)
	<u>7,553,925</u>
<b>Reconciliation of tax provision:</b>	
Profit before tax and monetary gain / loss	33,960,714
Subsidiary profit exempt from tax	(8,685,412)
Monetary gain / (loss)	-
<b>Profit after monetary gain / (loss), before tax</b>	<u>25,275,302</u>
<b>Calculated tax (30%)</b>	<u>(7,582,591)</u>
The effects of undeductable expenses	(607,197)
Dividend and other tax exempt income / expenses	1,322,355
Carry forward tax losses	46,412
Effects of adjustments	(1,078,478)
Deferred tax benefit / (charge)	345,574
<b>Taxation</b>	<u>(7,553,925)</u>

### 38. EARNINGS PER SHARE

According to Communiqué No: XI/25, Part 16 Article 412, companies, whose equity shares are not traded on stock exchanges, are not required to disclose earnings per share. The Company did not calculate earning/loss per share in the accompanying consolidated financial statements, since the Company's shares are not traded on the stock exchange.

### 39. OTHER ISSUES

None.

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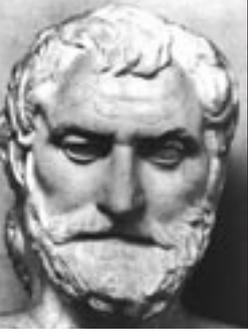
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# Derivatives - a new product?



People tend to assume that options and derivatives are a recent discovery. However, the person who first practiced these transactions and introduced them to mankind was an Anatolian sage named Thales, who lived in the 5<sup>th</sup> century B.C. Combining his knowledge in astrology and mathematics, Thales of Miletos foresees that the succeeding year's harvest of olives would be very good. He signs agreements with all the major olive pressing workshops in Miletos and its environs against cash deposits to engage them to work for him during the following season. Then comes the harvest time. Thales is not mistaken -- the harvest is actually very good. The demand for olive workshops increases rapidly. Thales makes a lot of money by renting at very high prices the workshops he had previously engaged. What Thales actually did was nothing but selling the olive harvest at an option. He had foreseen the future by blending his knowledge with his expertise, taken correct decisions at correct times and, in the end, transformed his investment into earnings.

**Thales's approach enabling the transformation of knowledge into earnings is still valid in today's world of investment, after 2,500 years.**

**Carrying its expertise in transforming knowledge into foresight and foresight into earnings over to the Derivatives Exchange, İŞ Yatırım maintains its leading position in this area.\***

\*İŞ Yatırım realized the highest trading volume in the Turkish Derivatives Exchange in its first year, with a market share of 25%.



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