



2004 Annual Report

İş Investment

December 2004



İş Investment concludes the largest and most successful public offering of 2004... Efforts to increase transparency continue... A favorable environment for investors... Public offerings and privatization: Actions that influence economic trends... A thousand ways to invest...



**The most
popular
state-enterprise
public offering
of all times...**



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MESSAGE FROM THE CHAIRMAN

İş Investment raised its share in stock market transactions from 5.05% to 6.38% in 2004, maintaining its leadership position in terms of equity trading volume and number of contracts.



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DOMESTIC CAPITAL MARKETS

The high returns on Turkish lira instruments illustrate that investors in the local currency earned much more than those who invested in foreign currencies.



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INTERVIEW WITH THE GENERAL MANAGER

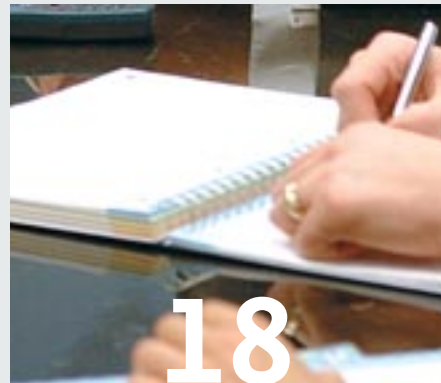
In the current environment of macroeconomic and political stability, foreign investors have demonstrated more interest in Turkey than ever before. The upshot of this is a decisive increase in enthusiasm on the part of the private sector to engage with foreign investors.



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INTERNATIONAL CAPITAL MARKETS

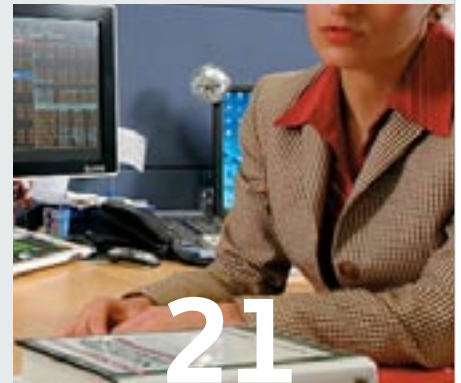
The positive developments in the domestic markets in 2004 limited the attractiveness of foreign-currency products for investors. Other emerging markets became alternatives to the Turkish Eurobond market, which offered lower returns.



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CORPORATE FINANCE

The public offering of Turkish Airlines (THY), conducted under the leadership of İş Investment, was the largest public offering of 2004. It was five times oversubscribed and was the most popular state-enterprise public offering ever realized.



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HUMAN RESOURCES AND TRAINING

Capital markets is a field which relies heavily on human resources, so the quality of personnel is paramount for success. İş Investment's specialization rests on the competence of its employees, each an expert in their respective fields.

TOP MANAGEMENT

İLHAMİ KOÇ
GENERAL MANAGER

NURAN CANITEZ
ASSISTANT GENERAL MANAGER

MURAT KURAL
ASSISTANT GENERAL MANAGER

UFUK ÜMİT ONBAŞI
ASSISTANT GENERAL MANAGER

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CHAIRMAN OF THE BOARD OF AUDITORS

ENDER ARSLAN
MANAGER, STRATEGIC PLANNING AND M&A

ŞÜKRÜ BOZKURT
COORDINATOR, SOFTWARE DEVELOPMENT

MELTEM ÇİTÇİ
MANAGER, INTERNATIONAL CAPITAL MARKETS

SERHAT GÜRLEYEN, CFA
MANAGER, RESEARCH

METİN HERTAŞER
MANAGER, FINANCIAL AND ADMINISTRATIVE AFFAIRS

YEŞİM KARAYEL
MANAGER, PUBLIC OFFERINGS AND PRIVATIZATION

ARKIN ŞENGÖNÜL
MANAGER, INFORMATION TECHNOLOGY

BANU TAŞKIN
MANAGER, INVESTMENT ADVISORY

FATMA ÜTÜL
MANAGER, OPERATIONS

İBRAHİM YAVUZ
MANAGER, SOFTWARE DEVELOPMENT

ÇAĞLAN YAZICI
MANAGER, INSTITUTIONAL SALES

YİĞİT ARIKÖK
ASSISTANT MANAGER, DOMESTIC MARKETS

NURAN AYDINOĞLU
ASSISTANT MANAGER, BROKERAGE

BİGE SARIKADILAR
ASSISTANT MANAGER, CORPORATE COMMUNICATIONS

YEŞİM ÖZDEN
ANKARA BRANCH MANAGER

MERİH DERİNSU
İZMİR BRANCH MANAGER

MERT ERDOĞMUŞ
KALAMIŞ BRANCH MANAGER

CENGİZ MACUN
REPRESENTATIVE OFFICE, ALMATY, KAZAKHSTAN

Fundamentals of Investment Strategies for 2005

The Turkish economy and financial markets greeted 2005 with a strong wave of optimism.

Reaping the fruits from a raft of tight fiscal and monetary policies and structural reforms which have been implemented since the beginning of 2000, the Turkish economy started the year in an atmosphere of easing concern over public debt dynamics, more benign inflationary expectations and a sustainable, high rate of growth.

A wave of optimism spread through the markets following the announcement of a new agreement with the IMF and the decision on December 17th to set a date for full EU membership talks. In principle, the IMF agreement called for the initiation of a new three-year stand-by program, which will serve as an anchor to convince the markets that the transformation of the Turkish economy would be long-term. Despite the US\$ 10 billion fund to be granted under the new agreement, Turkey will remain a net debt payer to the IMF in the coming years. On the other hand, the government's announcement of tight fiscal policies over the next three years, and its reassurance of pushing ahead with its program of rapid structural reform served to create market confidence in the sustainability of the Turkish economy. This also contributed to the fall in real interest rates. Considering that Turkey's accession process for full membership of the European Union will involve a lengthy process of around fifteen years, it is clear that only negligible flows of EU funds will be directed to Turkey in the short-term. However, as far as the markets are concerned the importance of the EU accession process lies instead in its role as an economic and political anchor, bringing about a significant increase in the amount of foreign funds entering the country.

As an enterprise which has always believed in the success of the economic program, İş Investment supports the optimism in the markets. It should be emphasized, however, that despite the benefits secured in recent years, the Turkish economy is still sensitive to external dynamics due to the widening current account balance and the structure of its debt stock. The current economic environment still harbors risks for the Turkish economy and an increasing potential for the Turkish economy to run into trouble, with the US Federal Reserve raising short-term interest rates, sharp fluctuations affecting the euro-dollar exchange rate, high oil prices and China's increasing share in the global markets.

To protect the economy against this risk and to ensure that today's gains prove long-lasting, a strong IMF-backed economic program must be implemented without interruption, concurrent with EU accession talks. Such a program would significantly help ease any adverse effects on the economy and the markets which might arise; for example, from negative developments on the EU front or in the global economy. İş Investment is confident that the political and economic leadership of the country is aware of the significance of this, and that it will continue to implement the right economic policies without becoming mesmerized by success. Persistence in implementing the economic program will form the backbone of İş Investment's investment strategies in 2005.

SUMMARY FINANCIAL STATEMENTS

(TL BILLIONS)

| BALANCE SHEET | 2001* | 2002* | 2003** | 2004** |
|----------------------|--------------|--------------|---------------|---------------|
| SECURITIES | 35,420 | 13,780 | 11,783 | 37,391 |
| CURRENT ASSETS | 69,959 | 24,370 | 43,712 | 61,103 |
| TOTAL ASSETS | 86,729 | 64,782 | 106,426 | 108,368 |
| SHAREHOLDERS' EQUITY | 42,847 | 55,599 | 90,073 | 97,882 |
| PAID-IN CAPITAL | 17,000 | 38,000 | 45,000 | 45,000 |

| INCOME STATEMENT | 2001 | 2002 | 2003 | 2004 |
|-----------------------------|-------------|-------------|-------------|-------------|
| NET SALES | 8,351,002 | 5,712,145 | 11,642,660 | 18,770,831 |
| STOCKS | 1,856,781 | 1,976,103 | 3,895,833 | 4,521,569 |
| GOVERNMENT BONDS | 2,530,837 | 1,049,374 | 5,902,751 | 10,860,279 |
| TREASURY BILLS | 3,889,519 | 2,672,505 | 1,825,654 | 3,355,793 |
| OTHER SECURITIES | 57,009 | 124 | 20 | 1,276 |
| COMMISSION INCOME | 14,618 | 8,082 | 14,118 | 28,027 |
| OTHER SERVICE INCOME | 2,238 | 6,441 | 6,912 | 11,785 |
| SALES DISCOUNTS | 0 | (484) | (2,628) | (7,897) |
| COST OF SALES | (8,311,110) | (5,679,300) | 11,602,071 | 18,721,988 |
| OPERATING EXPENSES | (21,235) | (17,079) | (23,891) | (29,162) |
| PROFIT FROM MAIN OPERATIONS | 18,657 | 15,765 | 16,697 | 19,681 |
| OPERATING PROFIT | 32,031 | 17,232 | 23,635 | 21,959 |
| PRE-TAX PROFIT | 34,245 | 17,257 | 23,680 | 22,007 |
| NET INCOME | 22,088 | 10,561 | 11,434 | 12,453 |

* Data for 2001 and 2002 have been extracted from balance sheets not adjusted for inflation.

** Data for 2003 and 2004 have been extracted from balance sheets adjusted for inflation.

Another successful year for İş Investment:

- **Number 1** in the stock market in terms of transaction volume and the number of contracts
- **Number 2** in the Istanbul Stock Exchange Bills and Bonds Market in terms of transaction volume
- **Number 6** in terms of return on Type B Variable Funds
- **Number 2** in terms of return among funds with more than TL 10 trillion of total assets

Priority: Investor satisfaction

Investment advisors evaluate the analysis and comments prepared by İş Investment's Research Department and the expectations and suggestions of both the Domestic and International Capital Markets Departments, presenting private investors with special investment packages that satisfy their financial needs.

İş Investment is an investment house which provides brokerage services for all instruments in both domestic and international markets. It acts as an intermediary in public offerings, repo and reverse repo transactions and in domestic and international capital market transactions.

With its investor-centered and market-focused approach, İş Investment offers product diversity and service quality, making it an industry leader. Investment advisors evaluate the analysis and comments prepared by İş Investment's Research Department and the expectations and suggestions from both the Domestic and International Capital Markets Departments, presenting private investors with special investment packages that will satisfy their financial needs. All efforts focus on investor satisfaction.



Of its 196 employees, each specialized in a particular field, 156 of the İş Investment staff hold capital market licenses. In addition, İşbank's 837 branches throughout Turkey serve as İş Investment agencies. İşbank's extensive branch network not only offers investors the opportunity to benefit from İş Investment's services, but also lays the foundation for İş Investment's expanding investor portfolio.

Davignon, "the European of the Year", supports Turkey's full membership - "The EU should give Turkey a date for accession talks."

The guest at the second meeting of İş Investment's now traditional "wide-angle" meetings was someone who made a significant contribution to laying the foundations for the European Union and was one of the most influential names in European business and politics: Viscount Etienne Davignon.

Speaking at a conference entitled 'Turkey's Place in an Expanding European Union' on April 1, 2004 at the Çırağan Kempinski Palace, Davignon stressed that Turkey's EU membership would benefit both sides. The conference was attended by a number of businessmen, diplomats, academics and media representatives.

Asserting that the time had come for the European Union to give Turkey a date for accession talks, Davignon said that in this process Turkey should make itself better known in Europe. Pointing to the concerns held by the European public about Turkey, Davignon voiced three main points:

"The first involves reservations about the country's stability. Secondly, the country's Muslim identity in an EU that has little experience in this respect. Thirdly, the concerns over Turkey's potential of becoming the most populous country in the union." Stating that Turkey must make efforts to inform people and increase understanding about Turkey in Europe to ease European concerns, Davignon added



Minister of State and Chief EU Negotiator Ali Babacan attended Viscount Etienne Davignon's meeting and gave a speech.

that Turkey should place more emphasis on promoting the country. He said that promotion cannot be attained with football alone, and that money needed to be spent on promotion, which should be specifically directed to attracting the attention of opposing factions. "But Turkey has to do this on its own", he said.

Viscount Etienne Davignon, who is currently the Vice Chairman of Société Générale de Belgique, Fortis, Umicore and Suez-Tractebel, was selected as the "European of the Year" last year. Davignon is also President of "Friends of Europe", defined as "a platform for discussing commercial and social issues among member states of the European Union".

İş Investment concluded the largest and most successful public offering of 2004

- In the secondary public offering of Turkish Airlines shares held by the Turkish Privatization Administration, carried out under the leadership of İş Investment, subscription was five times higher than the amount offered.



Approximately US\$ 200 million was raised in a public offering that had the best subscription performance of all state-enterprise offerings so far.

The 2004 Turkish Airlines secondary public offering held by the Turkish Privatization Administration was the most successful offering in the history of Turkish capital markets.

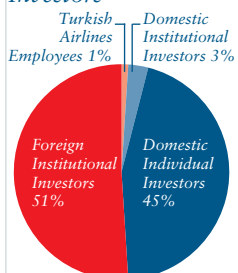
İş Investment led the project for the Turkish Airlines project, which turned out to be the largest public offering in 2004. Work on the project started in August and was swiftly completed in just four months. The public offering resulted in the sale of 40.25 billion shares to domestic and foreign investors, corresponding to 23% of Turkish Airlines' increased capital of TL 175 trillion. A large 38-member consortium of brokerage houses led by İş Investment served as the distribution network in the secondary public offering of Turkish Airlines shares, representing approximately US\$ 200 million worth of sales.

As the leading air carrier in Turkey, Turkish Airlines has been transporting people and merchandise between Turkey and the world for 72 years. With a young and expanding

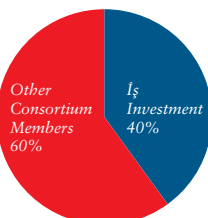
fleet and an extensive flight network of 103 destinations both in and out of the country, Turkey's national flag-carrier Turkish Airlines has become Turkey's most important brand in the global arena. Turkish Airlines has the most advanced technical maintenance capacity in the region and stands out with its high level of service, superior flight safety and security, qualified staff, strong equity capital, ongoing investments and financial performance. With a net profit of US\$ 154 million in 2003, Turkish Airlines was the seventh most profitable airline in the world and the third most profitable in Europe.

As in some earlier public offerings, Turkish Airlines chose to accept preliminary subscriptions in an effort to attract public attention and boost demand. The preliminary subscription period between November 17-

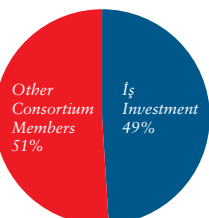
Breakdown of Preliminary Subscriptions by Investors



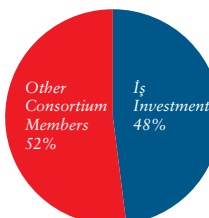
Breakdown of Preliminary Subscriptions



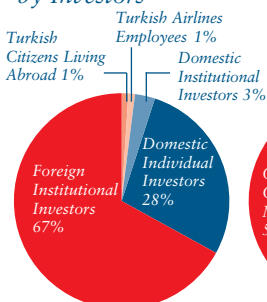
Breakdown of Preliminary Subscriptions by Number of Shares



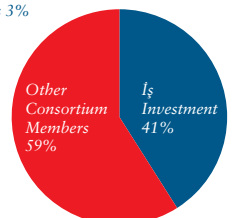
Breakdown of Foreign Institutional Investors by Number of Shares



Breakdown of Final Subscriptions by Investors



Breakdown of Final Subscriptions



İş Investment: Co-leader in the Petrol Ofisi Eurobond issue

İş Investment acted as co-leader in the Petrol Ofisi 2009 Eurobond issue, worth US\$ 175 million, carrying a 9.75% coupon and a 9.875% yield. This bond issue in July 2004 not only reached İş Investment's domestic investors but was also extended to a widespread network of investors abroad. As the issue took place at a time of intense interest in emerging markets, the Eurobond also performed well in the secondary market.

Another precedent set by İş Investment: The Broker of the Bonds for a Kazakh Company

İş Investment acted as a broker in the seven-year, US\$ 250 million bond issue of Kazakhstan-based Intergas Central Asia (ICA), Central Asia's largest natural gas pipeline operator.

İş Investment also served as the co-leader, along with Alpha Bank, of this consortium led by JP Morgan and ABN AMRO. This was the first time a Turkish brokerage house ever joined the Eurobond issue of a foreign company in international markets.

Owned by the Kazakh state, ICA transports Uzbek and Turkmen natural gas to Europe. This company signed strategic cooperation agreements with the Russian natural gas giant Gazprom. With its own liaison office in Kazakhstan, İş Investment believes in Kazakhstan's enormous growth potential, particularly with respect to its natural resources. Indeed, S&P's sovereign credit rating for Kazakhstan is BBB-, placing Kazakhstan as an investment grade country.

24, the first stage of the public offering for the sale of the 35 billion shares representing 20% of Turkish Airlines' capital saw a total demand for 175,235,789,000 shares from 35,578 investors. The amount of preliminary subscriptions was five times higher than the amount offered.

The largest public offering of 2004

A sound performance at the preliminary subscription stage of Turkish Airlines' secondary public offering was also echoed in the final subscription period. In the first three days of December, a total of 29,385 investors subscribed for a total of 173,132,453,000 shares. The final subscription volume was also five times higher than the amount being offered. In terms of demand, the results go to show that the Turkish Airlines secondary

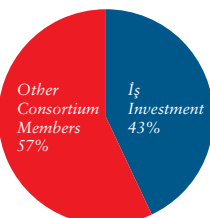
public offering was the most successful ever attempted.

At the distribution stage, 65% of the shares were allocated to foreign corporate investors and 35% to other investor groups. About 23% of investor requests were met and the shares were distributed to a total of 28,706 investors. İş Investment was the most successful broker of the consortium, in terms of sales performance, accounting for 42% of total sales.

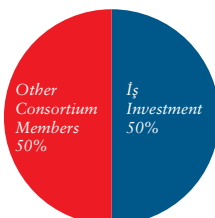
An unprecedented success

Considering sales volume, timing and overall market conditions, the success of the Turkish Airlines public offering was not only an achievement for İş Investment but also a giant step forward for the Turkish capital markets.

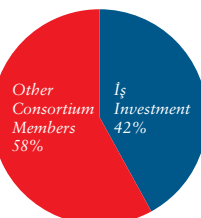
Breakdown of
Final Subscriptions
by Number
of Shares



Breakdown of
Foreign Institutional
Investors by
Number of Shares



Breakdown by
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Shares

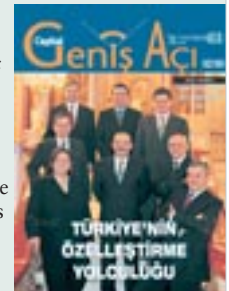


The success of the offering was also evident in the month following the offering, when İş Investment took on the responsibility of maintaining price stability of the traded Turkish Airlines shares. It was not necessary to use the price stability fund.

A product of cooperation between İş Investment and Capital Magazine

With the firm view that generating and sharing information is of crucial importance for the development of Turkey's capital markets, İş Investment launched a very special project of cooperation with the Capital Magazine, joining forces to create a supplementary quarterly magazine entitled "Wide Angle". The magazine will allow İş Investment to carry its annual Wide Angle (Geniş Açı) meetings into the field of publishing.

Each issue of Wide Angle will discuss a major hot topic in different dimensions and also cover issues which may not be high on the agenda but could provide useful insights. Work on Wide Angle will continue in 2005. The first issues of the magazine in 2004 featured the following articles: Corporate Governance, Privatization, Alternative Financing Opportunities and an article entitled "What will the EU Bring?"



The Hungarian violin virtuoso, Roby Lakatos, and his ensemble performed for their Turkish fans

The Famous violin virtuoso Roby Lakatos and his ensemble came to Turkey on a trip sponsored by İş Investment and organized by İş Culture and Arts. First performing in Ankara at the Bilkent Concert Hall on May 7-8, 2004, the group later took the stage in Istanbul at the İş Culture and Arts Center, in a performance which attracted the appreciation of the audience.

Coming to Turkey as part of a tour in celebration of their CD production of a movie theme, "As Time Goes By", Roby Lakatos and his ensemble performed a selection of well-known soundtracks from Fiddler on the Roof and Once Upon a Time in America.

His style on the violin is likened to that of Stéphane Grapelli and revered by maestro violinists such as Vadim Repin and Yehudi Menuhin. Roby Lakatos is known in musical circles as a classical virtuoso, a jazz musician and a talented composer; he has been dubbed 'the devil's fiddler.'



Turkey's goal is to attain sustainable growth



İş Investment raised its market share from 5.05% to 6.38% in 2004, maintaining its leading position in terms of equity trading volume and number of contracts. When it comes to Turkey's agenda, it has become more important to make economic gains permanent and achieve sustainable growth.

The main factors underpinning global growth in 2004 were the strong consumption expenditures in the US economy, stemming from expansionist monetary and financial policies as well as surging private sector investments in China. Strong foreign demand has stimulated economic growth in Japan. There was also a little more vigor in Eurozone economies, still holding onto tight monetary policies, even though the growth rate remained sluggish. Developing countries, however, benefited from the favorable trend in the global economy, which reached record levels of growth.

Increasing demand for raw materials in China and India, related to a general revival in developing countries, rapidly pushed up international commodity prices. Crude oil prices reached the highest levels seen recent years, when rising global demand was accompanied by supply shortages brought about by war, natural disasters and international terrorism. These events conspired to make 2004 a year when inflation rose globally.

In parallel with the FED's interest-rate hikes in 2005 and the partial tightening expected in financial policies, US growth is expected to slow down. At the same time China's economic growth is forecasted to slow down to more sustainable levels. Developing countries are expected to sustain their relatively high rates of growth. Continued high oil prices and an acceleration in FED interest rate hikes appear to be the principal risks for 2005.

After posting 8% economic growth in 2004, Turkey is expected to be one of the fastest growing countries in the world. With the Turkish economy now reaping the rewards of the tight fiscal and monetary policies and the structural reforms which have been implemented since



Board of Directors

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AUDITOR

AHMET ERGİN
AUDITOR

2000, combined with a favorable global conjuncture, 2004 was a year of easing concerns over public debt and more benign inflationary expectations.

Those in charge of the economy took determined steps to create an environment of high sustainable growth, and benefited from a very positive financial environment during 2004, despite the many difficulties. Growth reached record levels, even while the Government recorded a primary surplus in the consolidated budget. Despite a revival in domestic demand and surging international commodity prices, inflation fell to single-digit levels. Exports continued to break records despite the continued appreciation of the Turkish lira.

In December 2004, on the eve of the EU Summit, the Government's announcement that a new three-year stand-by program would be initiated with the IMF heightened expectations that the benefits of the economic program implemented between 2002-2004 would be carried into the medium-term. Hot on the heels of the new IMF agreement, the announcement that EU accession talks would begin in October 2005 contributed to the feeling of optimism.

Optimism for the new year will be buoyed by concrete factors, such as indications that the pace of the widening in the current account deficit is slowing down, a slowdown in domestic demand in parallel with measures taken by economic decision-makers, the securing of a new US\$ 10 billion fund under the new stand-by agreement with the IMF despite the country's continuing status as a net debt payer, and the increasing effectiveness of the Central Bank's monetary policies in the wake of the inflation targeting system to be introduced in 2006.

In light of the uncertainty in international markets and the vulnerability of the economy, financial policies will remain important in 2005. A high primary surplus is still the Government's main tool at hand in easing the burden created by rising oil prices on the current account balance and the FED's increasingly tightening monetary policies. The fact that the new stand-by agreement will enable the Turkish Treasury to reduce its annual debt repayment to the IMF to around US\$ 4 billion in the coming years, and the parallel decline in the Treasury's need to borrow from domestic and/or foreign markets will provide Turkey with a safe harbor in the event of an unexpected storm.

In the realm of public finance however, the benefits to be gained from short-term measures have largely reached their physical limits. While the budget-deficit-to-GNP ratio targeted for 2005 was 6%, the social security system's deficit as a proportion of GNP reached 4.6%. The share of indirect taxes in total Government revenues climbed to 70%. It is therefore imperative that structural reforms, particularly those concerned with taxation and social security, continue to be implemented and that the privatization effort is accelerated. In addition and in contrast with previous years, we are entering a period when private sector reforms must also be rapidly addressed.

The European Council is expected to take an insistent line on making sure Turkey fulfils its obligations under international treaties in the run-up to the start of EU accession negotiations. There are bound to be some short-term negative developments as various sectors strive to meet the legal and technical harmonization requirements of the EU, especially in the Customs Union and Competition chapters of the talks. We have always defended the importance of restructuring the public sector. Given the improvements in

public finances and considering the potential effects of the new three-year stand-by agreement with the IMF, we now believe that the screening and negotiation process will occupy a more important place in the economic agenda than the structural reforms to be implemented in both the public and private sectors.

Against the background of these developments, İş Investment leaves behind a year of achievements. The Company managed to increase its share in the ISE Stock Market from 5.05% to 6.38%, ending this year, as in the previous years, as the market leader in terms of both trading volume and number of contracts. In terms of equity trading volume, İş Investment again occupied second place in 2004 in the ISE rankings of the Bonds and Bills Market. The Company ranked sixth in terms of the return on Type B Variable Funds and second among funds, with over TL 10 trillion in assets, reaching its goal to be among the top ten.

On behalf of our Board of Directors, I would like to thank all of our employees for reinforcing our leadership and for supporting our pioneering efforts to be a top-notch financial institution. To İşbank, from whom we derive our strength, we extend our gratitude for the support and encouragement they gave us in our efforts to develop Turkey's capital markets. I would also like to thank our investors and business partners for their confidence in our Company.

Sincerely yours,

Özcan Türkakin
Chairman

A favorable environment for investors



- In 2004, investments in Turkish lira instruments brought higher returns than foreign currency investments. Foreign institutional investors became more active in the stock market.

The EU membership process proved to be the most important factor determining market trends in 2004. The referendum in Cyprus in the first half of the year, the announcement of the EU Commission's report in the third quarter of 2004 and finally, the decision taken by the EU Council at the end of the year on Turkey's EU accession all had a positive impact on the markets.

Although there was concern among investors surrounding the rising interest rates in the US, the delay in signing the new IMF-supported program and the high current account deficit, EU related developments, economic growth and falling inflation during the year also had a positive impact on markets.

The bullish sentiment that really began in earnest during mid-2003 continued into the first quarter of 2004, but the bearish trend in stock markets that emerged immediately after the disappointing outcomes of the referendum in Cyprus, and in response to concern over the rapid hikes in US interest rates also affected Turkey. However, the downward trend was short-lived, and confidence in the economic program supported by the prospect of EU and the IMF anchors brought a return to optimism.

The euro reached a record high against the dollar in 2004, following a steady rise which started in 2001. The euro started 2004 at 1.24 against the dollar and was testing the 1.36 mark by the end of the year. This movement in

The start of EU accession talks in 2005 and related developments will be the main factors affecting the stock market next year.

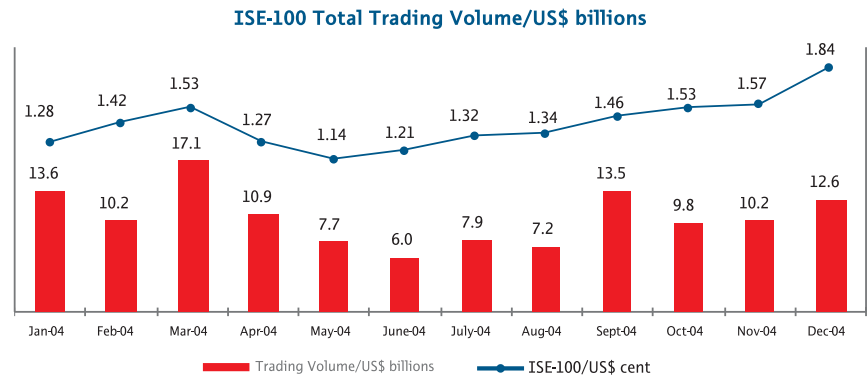
international markets resulted in a depreciation of the dollar against the Turkish lira and an appreciation of the euro. The change in the combined value of the currency basket, however, was virtually nil. In light of the high return on Turkish lira instruments, investments in Turkish lira brought considerably higher returns than foreign currency denominated investments.

Foreign institutional investors moved to the forefront of the stock market

The ISE-100 index of leading stocks ended the year 2003 at 17,800 points, before rising to 20,000 by the end of the first quarter of 2004. In parallel with the developments in global markets, there was a short-term fall before the index resumed its steady increase. The index ended 2004 at 24,971 points - the result of purchases by foreign institutional investors rather than any change in the distribution of domestic savings.

While there was no significant change in the number of stock investors with a positive balance at Takasbank, the share of foreign investors rose from 45.8% at the end of 2003 to 50.8% by the end of 2004. Although daily transaction volume levels reached up to TL 2.1 trillion, the average figure for the year was TL 825 trillion. The average daily transaction volume increased by 41% with respect to the previous year.

İş Investment managed to increase its market share in the stock market from 5.05% to 6.38%, maintaining its leading position in the stock market in terms of the equity trading volume and number of contracts in 2004.



The start of EU accession talks in 2005 and related developments will be the main factors affecting the stock market during the year. In addition, it is also expected that the stock market, which has reached a certain maturity, will not only be affected by local factors but exhibit greater sensitivity to developments in international markets.

Fixed-income securities market ended the year with a 20% yield

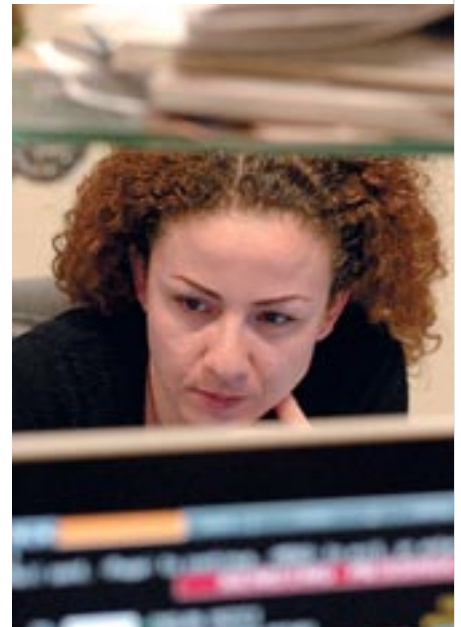
Compound bond yields started 2004 at 25.5%; by mid-April, the benchmark issue was trading at a yield of 22.5%, two percentage-points lower than the cost of funding. With sales starting in emerging markets, annual compound yields jumped to 31% - but then started to fall steadily. At the end of the year, interest rates stood at just over 20% in response to the new IMF program and the date for EU accession talks.



İş Investment again ranked second during 2004 in the ISE Bonds and Bills Market in terms of trading volume. Ranking eleventh among all brokers, including banks, İş Investment processed a larger volume than the four market maker banks. If brokerage transactions handled for mutual funds and investment trust companies are excluded, İş Investment was ranked first among all brokerage houses in terms of transaction volume.

Preparing for the Derivatives Exchange

The foundation of the Vadeli İşlem ve Opsiyon Borsası A.Ş. (VOB - Derivatives Exchange), planned for the last quarter of 2004, was postponed until February because of the transition to the New Turkish Lira. As a founding partner of VOB, İş Investment started preparations to obtain a Derivatives Trading License from the Capital Markets Board in mid 2004. A Derivatives Department was established



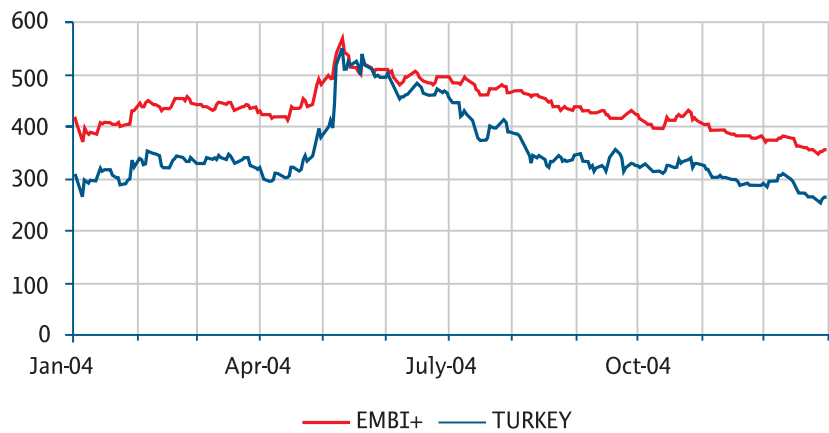
under the Domestic Markets Department to deal with forward transactions and develop other structured financial products.

In order to facilitate forward transactions, work flow and accounting systems were adjusted to accommodate for derivative products. Staff members received training on derivative instruments and the operation of the VOB. Efforts have also been put in place to inform investors about the contracts to be transacted and VOB operations. The software used for forward transactions continues to undergo new additions. However, while structured products were created for some investors in 2004, derivative products are not yet used in these synthetic instruments.

Knowledge and experience in asset management services – Mutual funds

İş Investment offers investors two variable mutual funds: Type A and Type B. Ranking sixth in terms of return among Type B Funds and second among funds with more than TL 10 trillion of assets under management, İş Investment's Type B Fund achieved its target to be among the top ten.

EMBI+ Index and Turkey Sub-Index



With the spell of market volatility in May, the mutual fund market - and the market for Type B variable funds and bonds & bills funds in particular - shrank considerably. The volume of Type B Funds decreased 29% in the month of May alone. Despite a 20% fall in the volume of Type B funds in 2004, İş Investment's Type B Variable Fund only recorded a 6% fall in volume. The

market share of İş Investment's Type B Variable Fund rose from 5.39% in 2003 to 5.90% in 2004. As a result, İş Investment moved up from sixth to fifth place in terms of market share.

A new strategy was adopted for the management of Type A Funds in 2005 and certain restrictions were introduced. This strategy allowed changes to the index to be taken into account, to a certain extent. The implementation of the strategy was assigned to a domestic markets specialist who would work in cooperation with the fund manager. The target for 2005 is to provide returns which exceed the relevant criteria in both types of funds and again rank among the top ten in the relevant categories.

Customized to individual needs: Investment Advisory Services

Risk and return always go hand-in-hand in financial markets. As the term of an investment instrument become longer, the risk involved increases along with potential returns. Therefore, there is no single formula or blanket investment strategy that can be applied to all investors. Success is based on the way the investment strategy meets different needs and how it responds to the risk preferences and expectations of the individual investor.

This is why the investment advisory services offered at İş Investment's Head Office and in the Ankara, İzmir and Kalamış (Istanbul) branches are so important. At İş Investment, each investor is assigned to a fully licensed investment advisor who is experienced in financial markets. All İş Investment advisors adhere to the Company's basic principle - to follow a Customer-Centered, Market-Focused Approach in all of their dealings. Monitoring markets very closely, and equipped with the necessary analysis and forecast tools together with the guidance of the Research, International and Domestic Capital Markets Departments, İş Investment advisors design investment solutions customized toward the investor's specific risk/return profile.

As real interest rates remained at attractive levels throughout 2004, İş Investment continued to advise on the use of Turkish lira instruments. Despite fluctuations during the year, İş Investment advised its investors to invest in the Bonds and Bills Market throughout the year, based on the Company's firm belief in the economic program. Investment advisors recommended medium-term bills to risk-averse investors and long-term bonds to risk-taking investors.

In the stock market, İş Investment set its target for the ISE-100 Index at 1.9 cents. Relying on the positive developments associated with Turkey's EU membership process and the new stand-by agreement, investment advisors recommended investors to buy more stocks in the summer months. This allowed investors to take advantage of the rising trend in the stock market during the second half of the year, and to significantly increase real returns on their investments.

Private Portfolio Management

Private portfolio management is another asset management service offered by İş Investment. The service aims to create private portfolios customized for private investors' risk and return expectations; portfolio comparison criteria are determined accordingly. After growing by 135% in 2003, the volume of funds under private portfolio management sustained a rising trend in 2004, and grew by 92%.

İş Investment set another precedent in 2004 when it launched the İş Investment Type B Süttaş Special Variable Fund in July. Demonstrating rapid growth, the fund reached 90% capacity and TL 19 trillion in volume by the end of the year.

Joining the investors who receive asset management services from İş Investment in 2003, the asset size of the publicly-traded İş Investment Trust Company grew from TL 88.5 trillion to TL 115.68 trillion last year.

Research: The basis of information, foresight and good returns

Making the right decision depends on having the right foresight. One can have the right foresight by gathering information and using it correctly. The Research Department is the Company's most important center for the processing of information.

The goal of the Research Department is to process information and produce analysis swiftly, accurately and reliably for the needs of investment advisors, portfolio managers and all domestic and foreign investors. This analysis in turn contributes to the formulation of portfolio management strategies. National and international markets are monitored every day with this goal in mind, and the information gathered is filtered by information analysts before being shared with investors.

The Research Department continued to build its capacity to produce increasing numbers of high-quality reports in 2004. In addition to the daily, weekly and monthly periodical reports, the Department also produced several macroeconomic studies in 2004, with 121 focus reports, 80 short reports, 23 medium/long reports and seven long reports.

All research reports and analyses are available at:

- İş Investment's websites at www.isyatirim.com.tr and www.isinvestment.com
- İşbank's finance portal at www.isteyatirim.com.tr
- Global data providers Bloomberg (IYM page) and Internet Securities Inc. (ISI) at www.securities.com



With the launch of the English web pages, foreign investors are now able to enjoy easier access to market data and research reports. The website's technical infrastructure has been improved thanks to the recommendations of users seeking swift access to financial and market data. Commentaries made during the trading sessions have been added to the content of the website together with daily information on the economy and business.

The Research Department plays an active and effective role in attracting both domestic and foreign institutional investors to İş Investment. The Department provides investors with comprehensive reports on the economy and on stock portfolio strategies, in both Turkish and English. The Research Department also responds to

customers' requests for special information and analysis.

In addition to these reports, the Department issues Buy, Sell and Hold recommendations for 30-40 major stocks traded on the ISE. It also creates a portfolio of the stocks considered to have the greatest return potential.

Choosing the right shares will become even more important in 2005. The recent upward swing in the stock market pushed share prices to above their targets, increasing the importance of selecting the right stocks for investment. One of the priorities of the Research Department is to contribute to maximizing the performance of customer portfolios by making the right changes at the right time.

Interview with the General Manager, İlhami Koç

"Those who have invested in Turkey have always profited."

- Turkey has taken some important steps to ensure macroeconomic stability. Increased interest from foreign investors is the most basic indicator of this. The start of EU accession talks and the signing of the new stand-by agreement with the IMF will serve to protect Turkey during what could be stormy days to come in the world markets. Those who have believed in Turkey and in Turkey's future over the past four years have profited. They will continue to profit in the coming periods.



Q: Turkey has rapidly recovered from the crisis and we are now talking about how the situation of the Turkish economy will be in ten years' time. What, in your view, have been the main factors behind this rapid change?

A: Turkey really has gone through very tough times. While attempts were being made to achieve macroeconomic stability in the aftermath of the crisis, a great deal of effort has gone into creating the necessary legal framework and to completing the necessary structural reforms so the process could be built on a strong foundation. On many occasions, these efforts have been met with harsh political debate. It should be noted however, that macroeconomic stability is only possible if there is political stability. Seen in this way, I think that the general election in 2002 permanently changed the way of doing politics in Turkey and completely altered the traditional ways of thinking. When we consider this development together with our target to become an EU member and have a national policy independent of political parties, it is apparent that the political ranks need to have more vision, assume more responsibility and be more careful about the economic consequences of their policies. The

success of the AK Party administration and the fact that it has been able to gain public support for EU reforms has reduced risk premiums in the markets. Along with the fall in inflation, which has been one of the fundamental targets of the economic program, confidence in the New Turkish Lira increased and a significant amount of funds that fled the country during the crisis have begun to filter back.

Q: Which areas do you think can be improved on?

A: Without doubt, the weakest component of the economic program was privatization and the improvement of the investment environment; Turkey was ten years late in initiating a privatization program. We must remember that in Central and Eastern European countries the first step to the inflow of foreign direct investment was privatization. In addition to contributing to macroeconomic growth, direct investment provided these countries with long-term financing for their own current account deficits and also paved the way for a transfer of technology while improving the competitiveness of their economies. Turkey wasted time with unproductive arguments.

Q: Are you hopeful about the future?

A: In the current environment where macroeconomic and political stability has been achieved, interest in Turkey is greater than ever. What is particularly encouraging is the eagerness of the private sector to do business with foreign investors. A look into the developments that have taken place since the beginning of the year and a study of the privatization program show us that Turkey has the potential to attract US\$ 10 billion in foreign capital inflow per year in the short-term. If we want a Turkish economy where macroeconomic stability is permanent, we cannot ignore the requirements of a free market economy and must be ready for competition with other markets. I believe that the government's political determination is strong enough to overcome the bureaucratic obstacles ahead of us. While admitting that the inflow of foreign capital into the country will be less than the inflow to new EU members during their accession process, I still believe that a direct-investment-to-GDP ratio of 2.5-3% can be easily achieved, given Turkey's longer experience with a liberal economy.



Q: Turkey's agenda in 2004 was dominated by the setting of a date for accession talks with the EU. Indeed, when the date of October 3, 2005 was announced on December 17, all markets responded positively. What can you say about the impact of this development on financial markets in the medium and long-term?

A: While our IMF-supported economic program achieved a steady fall in inflation, there was also an important decline in the debt-to-national-income ratio. This achievement is as much a result of the success of the government's political reforms, as it is a result of the success we achieved in economic terms. Turkey demonstrated the determination to comply with the Copenhagen Political Criteria and has taken giant steps to improve its image in international circles. We will reap the fruit of this in the medium and long-term. With the start of EU accession talks, Turkey's risk will inevitably diminish and we anticipate real interest rates to fall from their current levels. A fall in real interest rates and inflation will pave the way for new investment and high productivity increases, which will raise Turkey's potential economic output. This process will be supported by an inflow of foreign capital, so it would appear

that the New Turkish Lira will continue to appreciate in real terms in the medium and long-term. Along with the EU membership process, I can say that the Turkish investor's tendency to shift from foreign currencies to the Turkish lira will become more pronounced. We will therefore continue to recommend Turkish lira instruments for quite some time.

Q: Do you think foreign investors have more faith in this process?

A: International investors have a better knowledge of the EU membership process. As the winds of change came through Central and Eastern Europe in the second half of the 1990s, several high-return investment opportunities were created for international capital. Let's not forget that history repeats itself and when we are talking about financial markets, this repetition happens even faster.

Q: If you were to give an example...

A: Most Central and Eastern European countries who shared the EU membership perspective were already "investment grade" countries from the



outset. This meant that there was the opportunity to tap long-term and steady resources such as pension funds. Indeed, in all of these countries, nominal interest rates rapidly fell, while borrowing terms lengthened, local currencies appreciated and inflation started to fall. The ratings assigned to Turkey by international credit rating agencies are not yet in the "investment grade country" category. In spite of this, foreign enterprises believing in the Turkish market have begun to issue Eurobonds with maturities of up to ten years, in a move intended to create opportunities for investors seeking to buy fixed-income securities from the domestic market, but who had been unable to do so due to arrangements based on country risk. At the end of 2004, the fall in interest rates and Treasury borrowings for terms of three to five years went hand in hand with foreign demand. The fact that the foreign investors' share of domestic debt in the market rose from 4% to 9% stands as testament to the renewed investor confidence in Turkey.

Q: What about risk?

A: Although Turkey has strong potential if we consider the future, it is still in the same boat as emerging economies. It was not only Turkey's success story and good macroeconomic performance that were instrumental in bringing about the improved sentiment recently seen in the domestic markets. Another important factor was the availability of abundant and cheap international funds chasing high returns. Recent developments show us that it will not be possible to maintain the "extreme optimism" in emerging economies. The FED's interest-rate hikes are bound to impact long-term interest rates sooner or later. This in turn may result in an outflow of funds from emerging markets. In my opinion, the countries which take prudent advantage of these good times to eliminate macroeconomic imbalances will be less affected by this process in the long run. I see Turkey as one of the most prominent countries in this category. The start of EU accession talks and the new three-year stand-by agreement with the IMF will help protect Turkey during the stormy days that world markets may face. Finally, I want to point out that over the last four years, those who had faith in Turkey and in Turkey's future have profited. Those who can rid themselves of their old anxieties and look to the future to keep pace with the upcoming changes will continue to profit.

Important variables should be closely monitored

- Developments favoring the Turkish lira in domestic markets in 2004 reduced the attractiveness of foreign-currency denominated products. Attempts were made to maintain the volume with other emerging markets and through new issues. Columbia and Venezuela, for example, were foreign markets exhibiting outstanding performance.



In 2004, we witnessed several events that deeply affected international markets. Major developments impacting investments included:

- Developments related to the war in Iraq,
- Rising oil prices,
- The uncertainty over the US current account deficit and the resulting fluctuations in the FX markets,
- Repeated hikes in the US interest-rates,
- The global repercussions of the economic trends in China and related developments in the commodity markets,
- Gold prices reaching a 16-year high, and
- The US presidential elections.

These various developments did not create unmanageable fluctuations in 2004, since they were spread over time and their effects were contained. The markets also gave both developed and emerging countries the opportunity to issue fixed-income securities and stocks.

Most of these factors will remain key determinants throughout 2005 and continue to set the course for the financial markets.

International stock markets

Due to the rapid developments that followed the US presidential elections, the stock market lost some of the shine it had at the beginning of October 2004. This was another factor in the general caution that took hold in the markets. Despite this, all indicators so far show that stock markets will actually start 2005 off on the right foot.

In spite of low saving rates and dollar's weakness, there is no evidence that US consumers will cut back their spending. Combined with a fall in oil prices back to US\$ 40/bbl, after touching a high of US\$ 55, the growth of China and the

US that can stimulate global economic growth, the rapid changes in the markets and the positive technical outlook that resulted, all point to the fact that markets may enjoy spring breezes, at least for a little while.

Although basic indicators point to weaker macro data, we are optimistic that there will be a 10-15% rise in European markets. Japan's position, however, makes such estimation difficult. Several institutions have pointed to the low Japanese share prices at the beginning of 2004. Nonetheless, it seems that the Japanese market has 8-10% potential, in parallel with the US; economic growth has been well below expectations, funds have long been changing their positions in response to what they deemed to be low prices, and domestic demand has been weak. The trade surplus fell in response to changes in the dollar-yen exchange rate that resulted from the policies of the Bank of Japan.

When we look at individual industries, the home building industry, whose profitability stems from consumer loans, the automotive industry and the white goods industry are expected to register poor performance. Biotech, hardware, local telecommunications and pharmaceuticals will probably be the leading sectors during the first half of the year.

İş Investment carried its success in domestic capital markets to the international arena. In 2004, the Company's transaction volume in this segment increased 261% over the previous year, to a daily average of US\$ 1 million.



We advise non-speculating investors with an eye for real investment opportunities and with a longer-term perspective to take into consideration the financial indicators of stocks trading considerably above their historical averages, and choose more reliable instruments. When making investment decisions for luxury retail goods and to some extent precious metals, there is as much benefit to be had from being sensitive to dollar-euro-yen balances as there is to the choice of industry.

Investors believing that China, India, Russia and Brazil will be the new stars of the next fifty years may choose to share in their economic performance through the Exchange Traded Funds (ETFs) without taking any corporate risk. It should also be noted that, as in 2004, public offerings will present investors with new opportunities in 2005.

İş Investment carried its success in domestic capital markets to the international arena. In 2004, the Company's transaction volume in this segment increased by 261% over the previous year, representing a daily average of US\$ 1 million.

International bond markets

The main concern at the beginning of 2004 was that the FED would follow an aggressive interest rate policy and precipitate a drop in liquidity in global markets, making developing countries less attractive. Contrary to

International Sales and Marketing

İş Investment's Institutional Sales Department, with its effective distribution network and experience, offers investors specialization in company acquisitions. Making an important contribution to the development of capital markets, İş Investment, with its reputation in international markets, succeeded in attracting several large portfolio investments to Turkey and maintained its position as leader in special-purpose issues. Providing financial institutions and foreign institutional investors easy access thanks to its wide network of clients, İş Investment has taken part in all agreements made with foreign parties so far.

The success in implementing the economic program, the announcement of the new three-year stand-by agreement with the IMF and the expected start of full membership talks with the EU have all contributed to creating a noticeable increase in foreign investors' interest in Turkey during 2004. Indeed, transactions with foreign investors in 2004 increased 110% over the year before. In the same period, the volume of transactions handled by the International Sales Department increased fivefold.

Always providing its international investors with prompt and accurate information, İş Investment maintained its reputable position in the marketplace thanks to its long-term, customer-focused approach. One of the keys to İş Investment's success lies in its ability to provide local services at international standards.

expectations, however, the FED raised rates at a moderate pace with a series of quarter point increases from July 2004. During this period, short-term interest rates for the US dollar, which had fallen to an all-time low of 1%, climbed up to 2.25%.

The number of employees joining the payroll in non-agricultural sectors, which had been between 0-100,000 until April, experienced a surprising increase that month, suddenly reaching 300,000, creating panic among investors. The greatest fluctuation in emerging bond markets was experienced after this data was announced. Although the FED left interest rates unchanged at the beginning of May, the FED's omission from its statement that it would "act with patience with regard to interest-rate hikes" was another factor leading to the unease in the market. Between April and May, the spread of JP Morgan's Emerging Markets Basket increased by 140 bps. Looking at this indicator in the context of bonds, Brazil's 2040 bonds fell by

The rise in crude oil prices and the improvement in the credit ratings of oil-producing emerging countries in response to their improved economic conditions, increased interest in emerging bond markets. These markets became the most popular destinations of risk-seeking investors.

US\$ 20, Turkey's 2030 bonds fell by US\$ 35 and Russia's 2030 bonds fell by US\$ 25.

From mid-May, the market's attention shifted from the employment figures to inflation. The fact that the increases in wholesale prices were not proportionally shifted to consumer prices raised expectations that the FED would not start to increase interest rates aggressively. In global fixed-income securities, particularly US dollar Treasury Bills and emerging

When considered in terms of new issues, 2004 was a year of achievements. Record levels of private and government bond issues were easily absorbed by the markets.

market bonds, the trend seen in April and May was reversed between May and September. Returns on 10-year US bonds fell to 4% from their 4.80% peak reached during the year. In parallel with the increase in US bonds, the spread of JP Morgan's Emerging Markets Basket fell from 570 to 400 bps in September. The reduction in the spread continued, narrowing to just 350 bps by the end of the year.

At a time when crude oil prices were fluctuating around an average of US\$ 41/bbl (most emerging countries are oil exporters) and the credit ratings of emerging countries were improving in response to improved economic conditions, there was also heightened interest in emerging bond markets, which became the most popular markets for risk-seeking investors who were dissatisfied with the performance of global stock markets in 2004.

As well as the US interest rate policies, developments in emerging markets also sparked off short-term volatility in the markets from time to time, albeit on a small scale. While 2004 proved to be a surprisingly uneventful and peaceful year for Latin America, Eastern Europe was the most active region. The main items on the agenda in that part of the world were the banking crisis in Russia and the problems surrounding the country's leading oil company, Yukos, the election crisis in the Ukraine and Turkey being given a date to start EU accession talks.

The issue dominating the agenda in Turkey's markets was of course the EU membership process. Although the Cyprus problem caused some volatility at the beginning of the year, the chain of positive developments that started with the Turkish Cypriots' "Yes" vote in the referendum gained momentum with the EU Commission's October report which stated that Turkey should be given a date for accession talks. This chain of events culminated in the announcement, in December, for a date for these talks. In addition to the fall in the Turkish Eurobond market between April and May, stemming from the FED's policies, this market experienced an overall upward swing in 2004.

It was in this environment that the Turkish Treasury completed the pre-financing of approximately US\$ 250 million, achieving its international borrowing target of US\$ 5.5 billion. US dollar issues in particular exhibited a very good performance in the secondary market.

Surging oil prices ensured that Columbia and Venezuela exhibited the best performance, despite their high political risk. Although the Ukrainian market had recovered by the end of the year, the continued political risk resulted in it being one of the poorest performers during the year.



When considered in terms of new issues, 2004 was a year of achievements. Record levels of private and government bond issues were easily absorbed by the markets. A record US\$ 65 billion in government bonds were issued in 2004, more than double the US\$ 31 billion in 2003, while private bond issues also reached an all time high of US\$ 63 billion, compared to the US\$ 47 billion in 2003.

Positive developments in the domestic markets in 2004 lowered the attractiveness of foreign-currency products. Attempts were made to maintain the volume with other emerging markets and through new issues. Private bonds of emerging countries were particularly popular and transaction volume increased by 242%.



Public offerings and privatization: Actions that change economic trends

- İş Investment led work towards the public offering of Turkish Airlines, a project which turned out to be the largest transaction in 2004. Work started in August and the project was completed in just four months. İş Investment acted as the consortium leader in US\$ 235.5 million of a total of US\$ 680.7 million in public offerings realized in 2004.

High-quality corporate finance products and services

İş Investment offers a wide range of products and services through its Corporate Finance Department, including initial and secondary public offerings for both the public and private sector, public offerings of various financial instruments, consulting for mergers and acquisitions, private equity, venture capital projects, strategic planning and restructuring. İş Investment's corporate finance team has some of the most competent and experienced specialists in Turkey.

Public offerings

Thirteen public offering projects were completed in Turkey in 2004, bringing in a total of US\$ 680.7 million in revenues. İş Investment acted as the leader in three of these thirteen public offering projects, with a total revenue of US\$ 235.5 million. The public offering of Coca-Cola İçecek A.Ş., where İş Investment was again the lead underwriter, was cancelled in its final stages. İş Investment also acted as co-leader



İş Investment's share in public offering projects

| Year | No. | Revenue in the Public Offerings Handled by İş Investment (US\$ millions) | No. | Total Public Offering Revenue (US\$ millions) | İş Investment's Share % |
|--------------|-----------|--|------------|---|-------------------------|
| 1997 | 4 | 232.0 | 29 | 420.0 | 55 |
| 1998 | 4 | 104.0 | 20 | 383.0 | 27 |
| 1999 | 2 | 57.0 | 10 | 91.0 | 63 |
| 2000 | 13 | 2,311.0 | 35 | 2,806.0 | 82 |
| 2001 | - | - | - | - | - |
| 2002 | 3 | 33.0 | 4 | 56.0 | 59 |
| 2003 | - | 0.0 | 2 | 11.2 | - |
| 2004 | 6 | 608.8 | 13 | 680.7 | 89 |
| Total | 31 | 3,146.9 | 112 | 4,249.0 | |

2004 public offerings led by İş Investment

| Project | Sales Volume (US\$ millions) | (TL trillions) |
|--------------------|------------------------------|----------------|
| DESA | 14,729,724 | 21,315 |
| İş Venture Capital | 21,485,833 | 32,229 |
| Turkish Airlines | 198,977,097 | 270,000 |



İş Investment continued to work in cooperation with Citigroup foreign consultants in the privatization of the State Monopoly General Directorate, to which it had been appointed as the domestic consultant in the last quarter of 2002.

in the public offerings of Doğu Otomotiv, Türk Traktör and DenizBank.

In 2004, Turkish Airlines became the highest-value public offering. Again, İş Investment was the lead underwriter with the issue being five times oversubscribed in the preliminary and final subscription stages. Foreign institutional investors scooped up 65% of the shares while 35% went to domestic investors. İş Investment handled 48% of international sales and 29% of domestic sales.

Privatization

2004 was a very active year for the privatization program, with more privatization revenues realized during the year than since 2000 and efforts to assign consulting firms were completed in many of the projects planned.

İş Investment continued to work in cooperation with Citigroup foreign consultants on the privatization of the State Monopoly General Directorate, to which it had been appointed domestic consultant in the last quarter of 2002. After the privatization of the Monopoly's alcoholic beverages department in 2003, work on holding a new tender for the cigarette department gained momentum in the last quarter of 2004 and a second announcement was made to the public on December 10, 2004.

İş Investment has also been involved in the privatization of the Monopoly's salt operations. These efforts, which started in 2003, continued into 2004. A tender was held for Kağızman Salt Mine and Crystal Salt Refinery, as part of the privatization plan; by November 21, 2004, US\$ 715,000 in subscriptions had been received. Preparations for tenders to be held for other salt mines are in progress.

İş Investment has also provided consulting services to the Privatization Administration for the preparation of promotion and valuation reports concerning the privatization of Cyprus Turkish Airlines. This work will be updated in 2005, if necessary.

In addition, efforts were made for the privatization of 17 affiliates and subsidiaries of Sümer Holding A.Ş. This

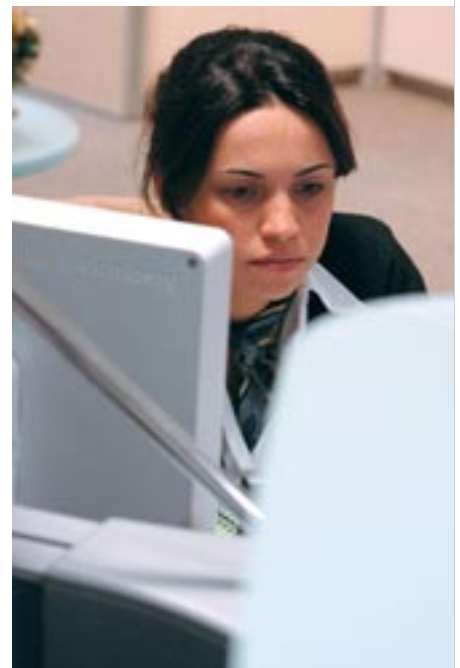


consulting service provided by İş Investment will continue into the first quarter of 2005.

Consulting services are being provided to the Privatization Administration for another tender in 2004 - the privatization of the Manavgat River Water Facilities. Preparations are underway for the tender planned for 2005.

Privatization projects for which consulting services were provided in 2004

- Taksan Machining Tools Industry and Trade Inc.
- Istanbul Fertilizers Industry Inc.
- Turkish Agricultural Equipment Industry
- Gereede Steel Construction and Equipment Factory Industry
- Sümer Holding Inc. (17 affiliates and facilities)
- Cyprus Turkish Airlines
- Tekel (State Monopolies)
- Manavgat Drinking Water Project
- Turkish Airlines



Corporate Finance Services Provided by İş Investment

Public Offerings

- Privatization through public offering
- Private sector public offerings
- Private sector bonds and bills issue
- Asset-backed securities issue

Consulting Services

- Privatization
- Mergers and acquisitions
- Strategic and financial partnerships
- Private placements
- Strategic planning and business development
- Restructuring
- Consulting for venture capital partnerships

Corporate Action

- Capital increases
- Dividend payments
- Share certificate renewals
- Collecting shares through calls

Apart from these activities, İş Investment's efforts continue in connection to the capital increases of publicly-traded companies, the distribution of dividends and the completion of share certificate renewal transactions.

Strategic Planning, Mergers and Acquisitions

When companies apply to brokerage houses for public offerings or mergers and acquisitions, it is generally the case that they are not ready for the process in question. In fact, companies must undergo a re-organization very early before embarking on the procedure. It is at this stage that İş Investment works with holding companies and groups of companies to develop projects for the necessary reorganization and planning work.



One such service is the advisory service provided to İş Investment's subsidiary, İş Venture Capital. Several screening and valuation reports were prepared for İş Venture Capital and consulting services were provided for an investment project in 2004.

Taking into consideration the increased foreign investor interest in Turkey, İş Investment visited a number of foreign investment and M&A companies in an effort to strengthen its relations with foreign purchasers. In 2004, İş Investment cooperated with 45 companies in about 25 countries. To this end, bi-monthly reports on M&As and privatization opportunities in Turkey were prepared and regular relations were established.

In 2004, Sapeksa, owned by Sabancı Holding, was acquired by the Tekfen Group's Toros Fertilizers. The State Monopoly's alcoholic beverages unit was sold to the Tütsab-Limak-Nurol-Özaltun Consortium. Consultation services were provided to Petrol Ofisi for the privatization of vehicle inspection stations. The Savings Deposit and Insurance Fund appointed İş Investment as a consultant in the Netsel Tourism Inc. project. Advisory

İş Investment develops restructuring and planning projects and provides consulting services for several holding companies and groups of companies in preparation for public offerings or mergers and acquisitions.

services were provided and a sales tender was organized for the project. Sales efforts for the İzmir Demir Çelik project are currently underway on behalf of İşbank.

Under the agreements transferred from 2004 to 2005, three consulting projects on the buy-side are in progress, two of which involve groups of foreign companies. Additional ongoing efforts include certain projects in various industries where İş Investment is acting as a consultant of the sell-side, and a number of other projects which are intended to support the M&A processes.

İş Investment's most valuable asset - Its employees

- In capital markets, an activity that relies heavily on human resources, the quality of personnel is crucial for success. İş Investment's specialization rests on the competence of its employees, each an expert in their respective fields.

The quality of personnel is the key to success in capital markets. In this industry, employees must be equipped with very special personal traits, knowledge and expertise. İş Investment employs people who can:

- turn basic training into strong competencies,
- create and transfer knowledge,
- adapt to new circumstances and innovations,
- work under stress,
- translate individual achievements into team success,

and who:

- are committed to their profession,
- create an environment that improves knowledge and skills, and
- ensure that success is permanent.

One of the objectives of İş Investment's human resources policy is to align the Company's strategic goals with the

goals of its employees. Performance assessment provides the means of measuring the added value and effort involved in a particular task. To achieve this, the goals and competencies of all employees are assessed by means of a performance assessment system. The 360-degree assessment tool is used to evaluate competence. Although performance assessment involves several different criteria, customer satisfaction is İş Investment's primary criterion.

Quality human resources for quality services

The number of employees working at İş Investment rose from 179 in 2003 to 196 in 2004, with the addition of new staff members who joined, in keeping with the increased workloads and the Company's goal of improving service quality.

Some 89% of İş Investment employees are university graduates; 72% have undergraduate degrees and 17% have earned graduate degrees. The average age of the employees is 32; 159 people are employed at the Head Office, 14 at the Ankara Branch, 12 at the İzmir Branch, 11 at the Kalamış Branch, and one at the Kazakhstan Representative Office.

In 2004, 165 employees attended training courses totaling an average of 21 hours per person, with a total of 567 days' training provided. Although most training sessions focused on the capital markets license exams, they also included specialized training and sessions on developments abroad. By the end of 2004, 156 İş Investment employees were licensed.

In 2004, 79 young students were given the opportunity to accumulate work experience as interns at the Company. Most interns were from the business administration and economics departments of universities.



A thousand ways to invest

Venture capital firms study a company in great detail before undertaking an investment, reviewing it from every angle, including its legal, operational and financial structure and making an investment decision in light of this information.



Yavuz Emre İyibilir
Business Development Manager

Venture capital involves a partnership with a company that has high potential for development (an enterprising company). Although it may differ from country to country, venture capital in its narrow sense consists of investments made in enterprising companies at the stage of their establishment. Similar investments undertaken at the growth and expansion stages are called "private equity." As is generally accepted in Europe and in Turkey, companies involved in both types of investments are called "venture capital firms." By meeting the resource needs of enterprising companies through capital transfers, venture capital firms share the risk with them.

Enterprising companies often have difficulty obtaining the funds they need from banks and other financial institutions for projects that may have long gestation periods or whose profitability expectations are largely uncertain. For this reason, venture capital is an alternative solution for enterprising companies with strong intangible assets, for finding the funds needed to finance high-risk projects. Venture capital firms therefore take on a very important responsibility by investing in a partnership with enterprising companies which, due to the nature of their risk, may find it difficult to obtain funds from financial markets under normal circumstances.

Venture capital, usually managed by professionals, obtains funds mainly from private enterprises, foundations, special funds such as pension funds, wealthy individuals or the general public. These funds are transferred to enterprising companies that are usually new and experiencing rapid growth, with the funds being used for new products and services or in financing value-added projects. Generally, a venture capital firm will become a shareholder of the enterprising company in return for undertaking these investments, and therefore venture capital firms aim to earn high returns against the risk involved. In order to reduce their risk, venture capital firms will invest in more than one enterprising company. In some cases, they work in cooperation with other venture capital firms and thereby share their risk in a project.

Venture capital firms will study a company in great detail before undertaking an investment, reviewing it from every angle, including its legal, operational and financial structure and making an investment decision in light of this information. In the partnership process, venture capital firms work in cooperation with other shareholders and the management of the enterprising company, offering experience and knowledge to the project which they have gained in similar investments and ensuring that targets are more quickly reached. On the other hand, venture capital firms usually own a less than 50% interest in the relevant enterprising company, preferring to remain a minority shareholder and not get involved in the management of day-to-day operations.

When venture capital firms around the world decide to withdraw from an investment, the method they usually employ is to offer the shares of the enterprising company to the public. This also gives the enterprising company the chance to sell its shares on the stock market. Alternatively, venture capital firms withdraw from an investment by selling back their shares to existing partners or a strategic or financial buyer.

From a historical perspective, IT and healthcare have been the two major industries where venture capital invests. Companies that have benefited from venture capital in their early stages include such industry leaders as Microsoft, Intel, Netscape, Sun Microsystems, Apple Computer, Digital

İş Venture Capital, with its effective portfolio management capability and exemplary institutional structure, seeks to generate higher returns for its shareholders, compared to other investment alternatives.

Equipment Corporation, Amazon.com, eBay and Yahoo in the field of IT, and Genentech, the company that pioneered the biotechnology industry. Venture capital firms also invest in companies that operate in a variety of other fields. Among these are world-famous companies such as Starbucks in the beverages industry, Federal Express in the logistics industry, and TCBY, the largest producer of frozen yogurt in the United States.

The emergence of venture capital as an institution goes back to the days following the Second World War. Its prominence, however, came about with the leading role they played in the US economy by creating the Internet. In Europe, venture capital as an institution appeared at the beginning of the 1980s and became widespread in the second half of the 1990s.

In Turkey, the authority to control venture capital firms (formerly called "risk capital firms") was initially given to the Capital Markets Board (CMB) in 1992. Following this, a series of communiqués were issued, first in 1993, then in 1998 and finally in 2003, thus establishing the necessary legal framework. Although the law exempts venture capital firms from corporate tax, the development of the sector has been

limited for various reasons. Today, there are four venture capital investment corporations under the authority of the CMB. While the shares in two of them - Vakıf Venture Capital (Vakıf Girişim Sermayesi Yatırım Ortaklığı A.Ş.) and İş Venture Capital (İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.) are traded on the - Istanbul Stock Exchange, the other two companies have only recently begun to operate. In addition to these, there are only a small number of venture capital companies in the sector, with local or foreign capital, and which do not come under the authority of the CMB. From an investor point of view, the advantage of publicly-traded venture capital firms over other publicly-traded companies is the opportunity to invest in companies with major growth potential coupled with the chance to gain a substantial return on their investment. These venture capital firms, with their institutional structure and effective management, capitalize to the highest possible extent on the high return potential of a company, by performing a lengthy and detailed investigation before undertaking the investment, thus minimizing risk.

İş Venture Capital was established on October 5, 2000 by the İşbank Group and the Turkish Technology Development Foundation, supported by World Bank funds. İş Venture Capital's mission is to contribute management expertise and capital to competitive companies operating in industries that have high growth potential, with a view to enabling them to develop projects that will benefit the Turkish economy. In keeping with this mission, İş Venture Capital channels its collective resources to entrepreneurs, ensuring that they benefit to the fullest extent, from the knowledge, experience and expertise they need. In addition, İş Venture Capital, with its effective portfolio management capability and exemplary institutional structure, seeks to generate higher returns

for its shareholders compared to other investment alternatives. The goal of İş Venture Capital is to meet the financing needs of eligible companies through capital transfers and become a leader in the venture capital market.

Although İş Venture Capital has no inherent preference of one sector over another, it plans to invest in new companies operating in industries which have the potential to turn to major or new markets, such as chemicals, durable and non-durable consumer goods, energy, healthcare, retailing, food, technology, telecommunications, media and logistics. İş Venture Capital's portfolio management philosophy is based on the idea of not interfering with the day-to-day operations and management of the companies in which it invests. Instead it attempts to play a guiding role, with the expertise and experience it has gained, at every stage of the company's operations.

For more information on İş Venture Capital, please visit www.isgirisim.com.tr.

Infrastructure that answers the needs of the future

- İŞ Investment will continue to be a technology leader in the finance industry in the coming years.



Today's finance industry has been one of the industries most affected by advances in technology. In the beginning, orders on the Istanbul Stock Exchange were written on boards, limits and transaction prices could only be communicated by phone and transactions were only in the hundreds. We have come a long way since then with the present system, where orders can be sent electronically, transaction prices and limits are announced to the world on-line and hundreds of thousands of transactions are processed. In the midst of all these developments, İŞ Investment has remained a market leader, sending out more than 20,000 electronic orders daily.

İŞ Investment's in-house software development team completed and

launched the "Kybele" program for a new investment banking system. This is a completely object-oriented system that makes use of the state-of-the-art programming techniques with a view to answering the needs of the marketplace more rapidly, helping İŞ Investment maintain its leadership position.

Equipped with an advanced technical infrastructure, İŞ Investment has the capability to act as a broker for local investors of foreign market transactions and in the transactions of foreign investors on local markets. It can also act as a broker in the transactions of foreign investors on foreign markets, for example, a citizen of Kazakhstan wishing to transact on the London Stock Exchange.

With a view to restructuring the Company's electronic and printed document system, efforts are underway to use the Microsoft SharePoint Portal Server. The target is to reduce paper waste and create a manageable document center. Some other projects completed during the year, within the context of the "disaster recovery" project, include the speeding up of communications between branches, the arrangement of Internet channels, the launching of security applications, the setting up of remote control channels and the achievement of centralized updating of patches and service packs.

İŞ Investment's position as a technology leader in the finance industry in the coming years is secure.

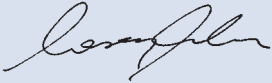
**İŞ YATIRIM MENKUL DEĞERLER A.Ş.
INFLATION ADJUSTED FINANCIAL
STATEMENTS PREPARED IN ACCORDANCE
WITH CMB COMMUNIQUE NO: XI-20
FOR THE YEAR ENDED
31 DECEMBER 2004**

İŞ YATIRIM MENKUL DEĞERLER A.Ş.

INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

1. We have examined the accompanying balance sheet of İş Yatırım Menkul Değerler A.Ş. (the "Company") as of 31 December 2004 and the related inflation adjusted statement of income for the year then ended in accordance with Communiqué No: XI/1 "Communiqué on Principles of Preparation of Financial Statements and Reporting in Capital Markets" and Communiqué No: XI/20 "Communiqué on Restatement of Financial Statements in Hyperinflationary Periods" published by the Capital Markets Board ("CMB"). The accompanying financial statements are expressed in the equivalent purchasing power of Turkish Lira as of 31 December 2004. 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 inflation adjusted financial statements referred to above present fairly the financial position of the Company as at 31 December 2004 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles and Communiqué No: XI/1, and No: XI/20 published by the CMB.

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



Hasan Kılıç
Partner

İstanbul, 28 January 2005

**BALANCE SHEET PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20**

NEW TURKISH LIRA (NTL)

| | Independent Audit Current Year 31 December 2004 | Independent Audit Prior Year 31 December 2003 |
|---|---|---|
| ASSETS | | |
| I- Current Assets | 60,773,601 | 43,712,220 |
| A- Current Assets | 6,126,838 | 11,747,396 |
| 1- Cash | 77 | 712 |
| 2- Bank | 6,126,761 | 11,746,684 |
| 3- Other current assets | 0 | 0 |
| B- Marketable Securities | 37,061,221 | 11,783,422 |
| 1- Equity shares | 22,965,924 | 4,099,700 |
| 2- Private sector bonds and notes | 0 | 0 |
| 3- Public sector bonds and notes | 16,112,840 | 7,683,722 |
| 4- Other marketable securities | 0 | 0 |
| 5- Provision for devaluation of marketable securities | (2,017,543) | 0 |
| C- Short-Term Receivables | 12,232,450 | 13,204,176 |
| 1- Trade receivables | 11,249,450 | 6,314,565 |
| 2- Notes receivables | 0 | 0 |
| 3- Deposit and guarantee given | 0 | 0 |
| 4- Other short-term receivables | 983,000 | 6,889,611 |
| 5- Discount on receivables (-) | 0 | 0 |
| 6- Provision for doubtful receivables (-) | 0 | 0 |
| D- Other Short-Term Receivables | 1,379,899 | 2,402,379 |
| 1- Receivables from shareholders | 0 | 0 |
| 2- Receivables from affiliates | 0 | 0 |
| 3- Receivables from subsidiaries | 0 | 0 |
| 4- Other short-term receivables | 1,379,899 | 2,402,379 |
| 5- Discount on receivables (-) | 0 | 0 |
| 6- Provision for doubtful receivables (-) | 0 | 0 |
| E- Inventories | 0 | 0 |
| F- Other current assets | 3,973,193 | 4,574,847 |
| II- Fixed Assets | 47,264,787 | 62,713,505 |
| A- Long-Term trade receivables | 0 | 0 |
| B- Other Long-Term Receivables | 0 | 0 |
| 1- Receivables from shareholders | 0 | 0 |
| 2- Receivables from associates | 0 | 0 |
| 3- Receivables from subsidiaries | 0 | 0 |
| 4- Other long-term receivables | 0 | 0 |
| 5- Discount on receivables (-) | 0 | 0 |
| 6- Provision for doubtful receivables (-) | 0 | 0 |
| C- Financial Assets | 43,905,170 | 58,604,079 |
| 1- Investments portfolio | 11,963,343 | 15,770,758 |
| 2- Capital commitments to investment in port. (-) | (1,116,287) | 0 |
| 3- Affiliates | 21,512,389 | 37,524,181 |
| 4- Capital commitments for affiliates (-) | 0 | 0 |
| 5- Provisions for the revaluation of affiliates (-) | (1,150,244) | 0 |
| 6- Subsidiaries | 4,781,646 | 4,781,646 |
| 7- Capital commitments for subsidiaries (-) | 0 | 0 |
| 8- Prov. for diminution in value of subs. (-) | 0 | 0 |
| 9- Other long-term financial assets | 7,914,323 | 527,494 |
| D- Tangible Fixed Assets | 1,709,278 | 2,732,787 |
| 1- Land | 0 | 0 |
| 2- Superstructures and infrastructures | 0 | 0 |
| 3- Buildings | 0 | 0 |
| 4- Machinery, plant and equipments | 2,671,486 | 2,443,870 |
| 5- Vehicles | 181,165 | 181,165 |
| 6- Furniture and fixtures | 605,213 | 567,198 |
| 7- Other tangible fixed assets | 4,126,479 | 4,126,479 |
| 8- Accumulated depreiation (-) | (5,875,065) | (4,585,925) |
| 9- Construction in progress | 0 | 0 |
| 10- Order advances given | 0 | 0 |
| E- Intangible Assets | 1,650,339 | 1,376,639 |
| 1- Establishment costs | 0 | 0 |
| 2- Rights | 261,368 | 220,685 |
| 3- Research and development costs | 0 | 0 |
| 4- Other intangible fixed assets | 1,388,971 | 1,155,954 |
| 5- Order advances given | 0 | 0 |
| F- Other Long-Term Assets | 0 | 0 |
| Total Assets | 108,038,388 | 106,425,725 |

| | Independent Audit Current Year 31 December 2004 | Independent Audit Prior Year 31 December 2003 |
|--|---|---|
| LIABILITIES | | |
| I- Current Liabilities | 9,170,384 | 15,526,586 |
| A- Financial Liabilities | 0 | 0 |
| B- Trade Payables | 552,000 | 6,798,539 |
| 1- Trade payables | 0 | 0 |
| 2- Notes payables | 0 | 0 |
| 3- Deposits and guarantees received | 0 | 0 |
| 4- Other trade payables | 552,000 | 6,798,539 |
| 5- Discount on notes payable (-) | 0 | 0 |
| C- Other Short-Term Payables | 2,815,977 | 1,291,399 |
| 1- Payables to shareholders | 0 | 0 |
| 2- Payables to equity participations | 0 | 0 |
| 3- Payables to subsidiaries | 0 | 0 |
| 4- Expense accruals | 0 | 0 |
| 5- Taxes and dues payable | 1,003,531 | 728,732 |
| 6- Deferred dues to government offices | 0 | 0 |
| 7- Other short-term payables | 1,812,446 | 562,667 |
| 8- Discount on notes payable (-) | 0 | 0 |
| D- Order Advances Received | | 0 |
| E- Provisions for Payables and Expenses | 5,802,407 | 7,436,648 |
| 1- Corporate tax payable | 5,523,706 | 7,139,759 |
| 2- Other provisions | 278,701 | 296,889 |
| II- Long-Term Liabilities | 986,374 | 826,267 |
| A- Financial Liabilities | 0 | 0 |
| B- Trade Payables | 0 | 0 |
| C- Other long-term payables | 0 | 0 |
| D- Order Advances Taken | 0 | 0 |
| E- Provisions | 986,374 | 826,267 |
| 1- Provision for termination indemnities | 986,374 | 826,267 |
| 2- Other provisions | 0 | 0 |
| III- Equity Capital | 97,881,630 | 90,072,872 |
| A- Capital | 45,000,000 | 45,000,000 |
| B- Premium in Excess of Par | 0 | 0 |
| C- Revaluation Surplus | 0 | 0 |
| D- Revaluations | 0 | 3,705,640 |
| 1- Revaluation of tangible fixed assets | 0 | 0 |
| 2- Revaluation of equity participations' | 0 | 0 |
| 3- Revaluation of stock exchange investments | 0 | 3,705,640 |
| E- Reserves | 1,217,909 | 4,284,606 |
| 1- Legal reserves | 0 | 3,289,582 |
| 2- Statutory reserves | 0 | 0 |
| 3- Special reserves | 0 | 0 |
| 4- Extraordinary reserves | 0 | 995,024 |
| 5- Cost increase fund | 0 | 0 |
| 6- Gains from sale of immovables and equity participations' shares transferable to capital | 1,217,909 | 0 |
| F- Net Profit/Loss for the Period | 11,337,105 | 11,434,218 |
| G- Loss for the Period (-) | 0 | 0 |
| H- Profit for Prior Year | 0 | (37,802,030) |
| I- Inflation Adjustment Differences on Equity | 40,326,616 | 63,450,438 |
| Total Liabilities | 108,038,388 | 106,425,725 |

**INCOME STATEMENT PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20**

NEW TURKISH LIRA (NTL)

| | Independent Audit Current Year 31 December 2004 | Independent Audit Prior Year 31 December 2003 |
|---|---|---|
| A- Gross Sales | 18,778,728,721 | 11,645,288,212 |
| 1- Sales of marketable securities | 4,521,568,635 | 3,895,833,237 |
| 2- Sales of private sector equities | 0 | 0 |
| 3- Sales of commercial paper | 0 | 0 |
| 4- Other sales of private sector bonds | 0 | 0 |
| 5- Sales of government bonds | 10,860,369,895 | 5,902,750,925 |
| 6- Sales of treasury bills | 3,355,792,895 | 1,825,653,753 |
| 7- Other sales of public sector bonds | 0 | 0 |
| 8- Other sales of marketable securities | 1,276,069 | 20,695 |
| 9- Brokerage commissions | 27,935,881 | 14,118,058 |
| 10- Other sales of services | 11,785,346 | 6,911,544 |
| B- Discounts from Sales (-) | (7,897,303) | (2,628,331) |
| 1- Sales returns (-) | 0 | 0 |
| 2- Discount on sales (-) | 0 | 0 |
| 3- Other discounts (-) | (7,897,303) | (2,628,331) |
| C- Net Sales | 18,770,831,418 | 11,642,659,881 |
| D- COGS (-) | (18,721,988,209) | (11,602,071,880) |
| Gross Sales Profit | 48,843,209 | 40,588,001 |
| E- Operational Expenses (-) | (29,161,834) | (23,891,200) |
| 1- Research & Development Expenses (-) | 0 | 0 |
| 2- Marketing, Advertisement & Distribution Expenses (-) | (6,350,462) | (3,659,853) |
| 3- General Administrative Expenses | (22,811,372) | (20,231,347) |
| Main Operational Profit | 19,681,375 | 16,696,801 |
| F- Other Operational Loss / Profit | 15,364,697 | 10,497,260 |
| 1- Dividend income from affiliates | 320,666 | 853,933 |
| 2- Dividend income from subsidiaries | 0 | 0 |
| 3- Interest and other dividend income | 3,963,245 | 2,599,689 |
| 4- Other operational income | 11,080,786 | 7,043,638 |
| G- Other Operational Revenues and Expenses (-) | (14,128,519) | (3,182,977) |
| H- Financial Expenses (-) | (74,531) | (375,747) |
| 1- Short-term borrowing expenses | (74,531) | (375,747) |
| 2- Long-term borrowing expenses | 0 | 0 |
| Operational Profit / Loss | 20,843,022 | 23,635,337 |
| I- Extraordinary Revenues | 48,377 | 45,113 |
| 1- Prior period provisions | 0 | 0 |
| 2- Prior year revenues and profits | 0 | 0 |
| 3- Other extraordinary revenues and profits | 48,377 | 45,113 |
| J- Extraordinary Expenses and Losses (-) | 0 | 0 |
| Profit / Loss for the Period | 20,891,399 | 23,680,450 |
| K- Monetary Gain (-) | (4,030,589) | (5,106,476) |
| Profit Before Tax | 16,860,811 | 18,573,974 |
| L- Taxes | (5,523,706) | (7,139,756) |
| Net Profit | 11,337,105 | 11,434,218 |

**CASH FLOWS PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
NEW TURKISH LIRA (NTL)**

| | CURRENT PERIOD | | PRIOR PERIOD | |
|---|-------------------------|----------------|-------------------------|----------------|
| | 01.01.2004 - 31.12.2004 | | 01.01.2003 - 31.12.2003 | |
| A- CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 11,747,396 | | 2,958,575 |
| B- CASH INFLOWS DURING THE PERIOD | | 18,804,586,085 | | 11,665,243,954 |
| 1- Cash inflows from sales | 18,770,831,418 | | 11,642,659,881 | |
| a- Net sales | 18,770,831,418 | | 11,642,659,881 | |
| b- Decrease in receivables (resulting from sales) | 0 | | 0 | |
| c- Increase in receivables (resulting from sales) | 0 | | 0 | |
| 2- Cash inflows from other income | | 15,364,697 | | 10,497,260 |
| 3- Cash inflows from extraordinary income | | 48,377 | | 45,113 |
| 4- Increase in current liabilities (not related to purchases) | 0 | | 0 | |
| a- Cash inflow from security issued | 0 | | 0 | |
| b- Other increases | 0 | | 0 | |
| 5- Increase in long-term liabilities (not related to purchases) | 0 | | 0 | |
| 6- Capital increase in the form of cash | | 0 | | 0 |
| 7- Other cash inflows | | 18,341,592 | | 12,041,700 |
| C- CASH OUTFLOWS DURING THE PERIOD | | 18,810,206,643 | | 11,656,455,134 |
| 1- Cash outflows resulting from costs | 18,721,988,209 | | 11,602,071,880 | |
| a- Cost of sales | 18,721,988,209 | | 11,602,071,880 | |
| b- Increase in inventories | 0 | | 0 | |
| c- Decrease in inventories | 0 | | 0 | |
| d- Increase in liabilities (related to purchases) (-) | 0 | | 0 | |
| e- Expenses not requiring cash outflows such as depreciation and provisions (-) | 0 | | 0 | |
| 2- Cash outflows related to operating expenses | | 27,017,509 | | 21,840,215 |
| a- Research and development expenses | 0 | | 0 | |
| b- Marketing, selling and distribution expenses | 6,350,462 | | 3,659,853 | |
| c- General administrative expenses | 22,811,372 | | 20,231,347 | |
| d- Operating expenses not requiring cash outflows | (2,144,325) | | (2,050,985) | |
| 3- Cash outflows related to other expenses | | 14,128,519 | | 3,182,977 |
| a- Other operating expenses | 14,128,519 | | 3,182,977 | |
| b- Other operating expenses not requiring cash outflows | 0 | | 0 | |
| 4- Cash outflows related to financial expenses | | 74,531 | | 375,747 |
| 5- Cash outflows related to extraordinary expenses | | 0 | | 0 |
| 6- Cash outflows related to fixed asset acquisitions | | 539,331 | | 192,087 |
| 7- Principal payments of short-term payables | | 0 | | 0 |
| 8- Principal payments of long-term payables | | 0 | | 0 |
| 9- Taxes and dues paid | | 6,538,105 | | 7,878,454 |
| 10- Dividends paid | | 0 | | 2,192,757 |
| 11- Other cash outflows | | 39,920,439 | | 18,721,017 |
| D- CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | 6,126,838 | | 11,747,396 |
| E- CASH INCREASE / (DECREASE) | | (5,620,558) | | 8,788,821 |

STATEMENT OF COST OF SALES

NEW TURKISH LIRA (NTL)

| | Independently Audited | | Independently Audited | |
|---|------------------------------|-----------------------|------------------------------|-----------------------|
| | CURRENT PERIOD | | PRIOR PERIOD | |
| | 1 JANUARY - 31 DECEMBER 2004 | | 1 JANUARY - 31 DECEMBER 2003 | |
| A- Cost of Marketable Securities Sold | | 4,519,803,660 | | 3,892,250,519 |
| 1- Beginning inventory (+) | 3,658,871 | | 1,198,571 | |
| 2- Purchases during the period (+) | 4,539,070,225 | | 3,894,710,819 | |
| 3- Period end inventory (-) | (22,925,436) | | (3,658,871) | |
| B- Cost of Private Sector Bonds Sold | | 0 | | 0 |
| 1- Beginning inventory (+) | 0 | | 0 | |
| 2- Purchases during the period (+) | 0 | | 0 | |
| 3- Period end inventory (-) | 0 | | 0 | |
| C- Cost of Commercial Paper Sold | | 0 | | 0 |
| 1- Beginning inventory (+) | 0 | | 0 | |
| 2- Purchases during the period (+) | 0 | | 0 | |
| 3- Period end inventory (-) | 0 | | 0 | |
| D- Cost of Other Private Sector Bonds Sold | | 0 | | 0 |
| 1- Beginning inventory (+) | 0 | | 0 | |
| 2- Purchases during the period (+) | 0 | | 0 | |
| 3- Period end inventory (-) | 0 | | 0 | |
| E- Cost of Government Bonds Sold | | 10,852,879,195 | | 5,895,339,848 |
| 1- Beginning inventory (+) | 11,881,342 | | 23,158,297 | |
| 2- Purchases during the period (+) | 10,868,786,637 | | 5,884,062,893 | |
| 3- Period end inventory (-) | (27,788,784) | | (11,881,342) | |
| F- Cost of Treasury Bonds Sold | | 3,348,022,376 | | 1,814,460,546 |
| 1- Beginning inventory (+) | 6,119,157 | | 10,142,814 | |
| 2- Purchases during the period (+) | 3,342,087,112 | | 1,810,436,889 | |
| 3- Period end inventory (-) | (183,893) | | (6,119,157) | |
| G- Cost of Other Public Sector Bonds Sold | | 0 | | 0 |
| 1- Beginning inventory (+) | 0 | | 0 | |
| 2- Purchases during the period (+) | 0 | | 0 | |
| 3- Period end inventory (-) | 0 | | 0 | |
| H- Cost of Other Marketable Securities Sold | | 1,282,979 | | 20,967 |
| 1- Beginning inventory (+) | 0 | | 0 | |
| 2- Purchases during the period (+) | 1,282,979 | | 20,967 | |
| 3- Period end inventory (-) | 0 | | 0 | |
| II- COST OF MERCHANDISE SOLD | | 18,721,988,209 | | 11,602,071,880 |
| II- COST OF SERVICES RENDERED | | 0 | | 0 |
| COST OF SALES (I+II+III) | | 18,721,988,209 | | 11,602,071,880 |

NOTES TO THE BALANCE SHEET PREPARED IN ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20 AS AT 31 DECEMBER 2004

1. ACTIVITIES OF THE COMPANY

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

2. SHAREHOLDERS WITH A SHAREHOLDING OF 10% OR MORE

| Name | 31 December 2004 | | 31 December 2003 | |
|-----------------------------------|-----------------------|-------------------|-----------------------|--------------------|
| | Share Percentage % | Amount NTL | Share Percentage % | Amount NTL |
| Türkiye İş Bankası A.Ş. (A Group) | 0.3 | 150,000 | 0.3 | 150,000 |
| Türkiye İş Bankası A.Ş. (B Group) | 91.7 | 41,250,000 | 91.7 | 41,250,000 |
| Others | 8 | 3,600,000 | 8 | 3,600,000 |
| | 100 | 45,000,000 | 100 | 45,000,000 |
| Effect of Inflation Adjustments | | 58,990,724 | | 58,990,724 |
| Losses Deduc. (See Note 33) | | (18,664,107) | | - |
| | | 85,326,617 | | 103,990,724 |

Inflation effects on shareholders' equity items are presented separately under shareholders' equity of the financial statements as "Inflation Adjustment Differences on Shareholders' Equity". According to the decision of General Shareholders meeting which was held on 29 March 2004, the accumulated losses have been offset against 31 December 2003 net income, accumulated profits, extraordinary reserves, legal reserves and inflation adjustment differences on shareholders' equity arising from the inflation adjustment respectively, as per the general commercial regulations and the Articles of the Company.

3. SPECIAL RIGHTS GRANTED TO ISSUED SHARES

The capital of the Company is NTL 45,000,000 (Forty five million New Turkish Lira). The capital consists of 45,000,000 (Forty five million) shares of NTL 1 (One New Turkish Lira) each. All the stocks are issued to name. NTL 150,000 of the shares is Group A and NTL 44,850,000 is Group B. According to the Articles of Association, additional Group A shares cannot be issued in new capital increases. The members of the Board of Directors and the statutory auditors are selected among the nominees determined by A Group shareholders.

4. REGISTERED CAPITAL LIMIT

The Company is not subject to the registered capital limit system.

5. CAPITAL INCREASES DURING THE YEAR AND THE SOURCES

The capital of the Company was fully paid in cash by the shareholders as at the balance sheet date.

6. SECURITIES OTHER THAN SHARES ISSUED DURING THE YEAR

There are no securities other than shares issued during the year (31 December 2003: None).

**NOTES TO THE BALANCE SHEET PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
AS AT 31 DECEMBER 2004 / (Continued)**

7. DEBT SECURITIES MATURED DURING THE YEAR

The Company has not issued debt securities during the year (31 December 2003: None).

8. MOVEMENTS OF FIXED ASSETS DURING THE YEAR

a. Cost of acquired, built or purchased fixed assets is NTL 305,811 (31 December 2003: NTL 168,297). There is no addition to intangible asset in the current year (31 December 2003: NTL 437).

b. There are no fixed assets scrapped or sold (31 December 2003: None).

c. There is no construction in progress (31 December 2003: None).

9. CURRENT AND FUTURE INVESTMENT ALLOWANCES WHICH ARE DEDUCTIBLE FROM TAX BASE

There is no investment allowance applicable to the current or following periods as at the balance sheet date (31 December 2003: None).

10. BALANCES WITH SHAREHOLDERS, AFFILIATES AND SUBSIDIARIES

As of the balance sheet date, the Company has NTL 117,370 demand deposit (31 December 2003: NTL 423,767); NTL 369,777 equivalent of US\$ 275,521 (31 December 2003: NTL 33,044), NTL 88,696 equivalent of Euro 48,553 as demand deposit as well and there is no time deposit held in Türkiye İş Bankası A.Ş. (31 December 2003: NTL 11,270,183).

The Company has commision receivables of NTL 28,036 from İş Yatırım Ortaklığı A.Ş. (31 December 2003: NTL 516,646) and NTL 487,762 from İş Yatırım Menkul Değerler A.Ş. Investment Funds in the current period other than the deposits mentioned above with its shareholders (31 December 2003: NTL 945,429).

11. ACCOUNTING PRINCIPLES AND VALUATION METHODS

a. Basis of Preparation of Financial Statements

The Capital Market Board has published Communiqués No: XI/1, XI/20 and other Communiqués, which amend or add to the above Communiqués. These Communiqués define the principles and rules related to the preparation, presentation and reporting of financial statements (hereinafter referred to as "generally accepted accounting principles issued by the Capital Market Board") to be prepared by those companies subject to Capital Market Law.

CMB published Communiqué No: XI/20 "Communiqué on the Preparation of Financial Statements in Hyperinflationary Periods", and Communiqué No: XI/21 "Communiqué on Consolidated Financial Statements and Accounting for Investments in Associates in Capital Markets" for financial statements to be prepared for periods beginning on or after 1 January 2003.

The Company has prepared its first inflation adjusted financial statements prepared in accordance with CMB Communiqué No: XI/20 as at 31 December 2003. Since the Company's shares are not publicly traded on the stock exchange as at the balance sheet date, it has no obligation to prepare consolidated financial statements in accordance with Communiqué No: XI/21.

First time application:

The Company prepared its financial statements according to Communiqué No: XI/20 for the first time as at 31 December 2003. In accordance with this Communiqué, when financial statements are restated for the first time, the beginning period is adjusted by deducting restated assets from restated liabilities and restated equity components and the difference is recorded under previous years' accumulated losses and shareholder's equity inflation restatement differences.

Inflation Accounting:

In the accompanying financial statements, restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, according to Communiqué No: X1/20.

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 and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of Communiqué No: XI/20 is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 70% for the three years ended 31 December 2004 based upon the wholesale price index announced by the Turkish State Institute of Statistics. The other criterion for the determination of commencing of hyperinflationary period and, therefore, requirement for application of this decree is having a 10% or higher inflation rate in the current period.

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 and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of Communiqué No: XI/20 is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 70% for the three years ended 31 December 2004 based upon the wholesale price index announced by the Turkish State Institute of Statistics. The other criterion for the determining a hyperinflationary period and, therefore, requirement of application of this Communiqué is inflation of 10% or higher in the current period.

Although the price level has not increased according to the rates mentioned above, as a result of other criteria such as; the general population substantially keeping their savings in foreign currencies, prices of goods and services quoted in foreign currencies, interest rates, wages and prices linked to a price index, sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, the accompanying financial statements are adjusted for the effects of inflation.

The restatement was calculated by means of conversion factors derived from the countrywide wholesale price index published by the State Institute of Statistics (with the index beginning in 1994 at 100). Such index and the conversion factors used to restate the accompanying financial statements as of the end of each period to 31 December 2003 are given below:

| Date | Index | Conversion Factor |
|------------------|--------------|--------------------------|
| 31 December 2001 | 4,951.7 | 1.6972 |
| 31 December 2002 | 6,478.8 | 1.2971 |
| 31 December 2003 | 7,382.1 | 1.1384 |
| 31 December 2004 | 8,403.8 | 1.0000 |

NOTES TO THE BALANCE SHEET PREPARED IN ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20 AS AT 31 DECEMBER 2004 / (Continued)

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

| Year | 2004 | 2003 | 2002 | 2001 |
|---------------------------|--------|---------|-------|--------|
| Currency Devaluation US\$ | (3.8%) | (14.6%) | 13.6% | 114.3% |
| WPI Inflation | 13.8% | 13.9% | 30.8% | 88.6% |

As at 31 December 2004 the exchange rate announced by the Turkish Central Bank was NTL 1,342 = US\$ 1 (31 December 2003: NTL 1,395 = US\$ 1).

The main guidelines for inflation accounting per the CMB published Communiqué No: XI/20 are as follows:

- All balance sheet amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are 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.
- Non-monetary assets and liabilities are 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 on their restated amounts. Official registration date or cash injection date is used to restate capital. Collection date is used in the restatement of premium in excess of par. Other components of shareholders' equity are restated by applying the applicable general price index from the dates when components were contributed or otherwise arose.
- All items in the statement of income are restated by applying the relevant conversion factors from the dates when the income and expense items were initially recorded in the financial statements, except restatement of income components which depend on restatement of non-monetary assets and liabilities like amortization, fixed asset sales profit/ (loss) which are restated according to Decree No: XI/20.
- The gain or loss on the net monetary position is 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 is included in net income.

The monetary unit which will be used "Yeni Türk Lirası":

A new law number 5083 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 = 1,000,000 TL. The New Turkish Lira is divided into 100 New Turkish cents ("YKr"). The accompanying financial statements are presented in Turkish Lira (TL) since that was still the official currency as at the balance sheet date. Explained as in CMB's No: MSD-10/832 – 43399, and 1 December 2004 dated declaration, the financial statements that will be published in 2005, including the financial data belong to last year that is carrying comparative purpose, have to be presented in NTL. Therefore the financial statements are prepared in NTL.

b. Marketable Securities

Marketable securities are initially booked at cost. Government bonds, treasury bills, and revenue sharing certificates are recorded at amortised cost based on their internal rate of return.

Reverse repo transactions and placements on the stock exchange money market are valued at cost plus accrued interest over the period to maturity.

Equity shares traded on stock exchanges are valued at the average of the weighted average unit prices for the 5 days prior to the balance sheet date. Shares acquired in the last 5 working days prior to the balance sheet date are valued at the lower of cost or weighted average price on the balance sheet date. Foreign currency equity shares traded on the stock exchange are valued at the unit prices for the last transaction date.

Income accruals are shown under the marketable securities account in the balance sheet, and "Other Operating Income" in the statement of income.

Government bonds and treasury bills given as collateral or guarantee due to legal requirements are booked as "Long-Term Investment Securities". Value increases resulting from year end valuations are recorded in the "Value Increase on Stock Exchange" under shareholder's equity in the balance sheet, and decreases are recorded in "Other Operating Expenses" in the income statement.

c. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are carried at restated acquisition costs by applying corresponding coefficients for their respective acquisition dates. Respective depreciations and amortisations are also recalculated on a straight line basis on their indexed cost as per their useful lives.

Tangible fixed assets that are acquired before 1 January 2004 are depreciated on a straight line basis using the following rates; tangible fixed assets that are acquired after that date are depreciated by using the new depreciation rates announced by Tax Law No: 5024.

| | 2004 % | 2003 % |
|-------------------------------|----------|--------|
| Machinery & Equipment | 20-25-33 | 20 |
| Vehicles | 20 | 20 |
| Fixture & Furniture | 10-20 | 20 |
| Leasehold Improvements/Rights | 10-20 | 10-20 |

d. Trade Receivables

Trade receivables are shown at their recorded values in the accounts and result from the Company's securities trading and investments on behalf of its clients. These balances are not discounted on the basis that they are very short-term and arising from the settlement system.

e. Income and Expenses

The accrual basis of accounting is applied for the recognition of revenues and expenses. Accordingly, income is recognised at the time of delivery of goods or services.

NOTES TO THE BALANCE SHEET PREPARED IN ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20 AS AT 31 DECEMBER 2004 / (Continued)

f. Assets and Liabilities in Foreign Currencies

Assets denominated in foreign currencies are translated into Turkish Lira at buying exchange rates announced by the Turkish Central Bank at the balance sheet date. Liabilities denominated in foreign currencies are translated into Turkish Lira at selling exchange rates announced by the Turkish Central Bank at the balance sheet date. Transactions in foreign currencies during the year are translated into Turkish Lira at the rates ruling on the transaction dates. Exchange gains and losses resulting from such transactions are included in the profit and loss accounts.

g. Retirement Pay Provision

In accordance with Turkish Employment Legislation, the Company has a commitment to make a retirement payment to personnel who have worked more than 1 year and were terminated (except on resignation or because of unsatisfactory behavior). This retirement pay is calculated on the basis of 30 days gross pay per year.

h. Financial Leasing

Assets held under finance leases are recognized as assets of the Company 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.

i. Tax

The Company is subject to Turkish corporation taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company'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% (10%, the funds contribution 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.

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. The allowance can be carried forward by increasing the amount by WPI inflation rate in the following years.

Inflation Adjusted Tax Calculation:

For 2003 and previous years, taxable profits were calculated without any inflation adjustment to the statutory records, except that fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 requires the application of inflation accounting in Turkey in 2004 and future years for tax purposes, if the actual rate of inflation meets certain thresholds defined by the law. Inflation accounting principles in the tax legislation does not show any difference from the sentences in the CMB Communiqué Number: XI/20.

12. SUBSEQUENT EVENTS

- a. Vadeli İşlemler Opsiyon Borsası A.Ş., one of the subsidiary of the company, has begun futures transactions in the year of 2005.
- b. Subsequent to the balance sheet date the ceiling for gross pay for the retirement pay provision limit has been increased to NTL 1,649 as of 1 January 2005.

13. CONTINGENCIES

Letters of guarantee amounting NTL 1,776 was given to Capital Markets Board ("CMB") (31 December 2003: NTL 4,005,640), to Istanbul Stock Exchange ("ISE") NTL 6,216,000 and US\$ 10,500,000 equivalent to NTL 14,092,050 (31 December 2003: NTL 20,689,374) and NTL 2,910 and US\$ 201.700 equivalent to NTL 270.702 to Privatization Administration (31 December 2003: NTL 18,933).

14. CHANGES IN ACCOUNTING ESTIMATES

Due to the Company's review of depreciation methods, NTL 705.182 change has occurred at accumulated depreciation (31 December 2003: None).

**NOTES TO THE BALANCE SHEET PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
AS AT 31 DECEMBER 2004 / (Continued)**

15. MORTGAGES OR PLEDGES ON ASSETS

There are no mortgages or pledges on assets as at 31 December 2004, but there are securities blocked as collateral to the following institutions.

| | 31.12.2004 NTL | | | 31.12.2003 NTL | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Nominal Value | Acquisition Cost | Carrying Value | Nominal Value | Acquisition Cost | Carrying Value |
| Central Bank (Open Market Operations) | 4,750,000 | 5,555,952 | 4,895,225 | 6,750,000 | 5,962,265 | 6,633,933 |
| CMB | 3,600,000 | 3,865,490 | 3,818,026 | 3,000,000 | 3,103,599 | 3,165,295 |
| İMKB Takas ve Saklama Bankası A.Ş. (Transaction Limit) | 2,000,000 | 2,488,385 | 2,082,456 | 8,920,000 | 2,999,255 | 5,971,531 |
| Istanbul Stock Exchange | 50,500 | 53,514 | 51,348 | - | - | - |
| Total | 10,400,500 | 11,963,341 | 10,847,055 | 18,670,000 | 12,065,119 | 15,770,758 |

16. INSURANCE ON ASSETS

As of 31 December 2004 and 31 December 2003, the insurance on assets is as follows:

31 December 2004

| | Net Book Value NTL | Insurance Total NTL | Coverage % |
|-------------------------|--------------------|---------------------|------------|
| Machinery and Equipment | 972,043 | * | * |
| Motor Vehicles | 4,069 | 82,442 | 1.926 |
| Furniture and Fittings | 258,464 | * | * |
| Leased Assets | 474,702 | 5,547,605 | 225* |

31 December 2003

| | Net Book Value NTL | Insurance Total NTL | Coverage % |
|-------------------------|--------------------|---------------------|------------|
| Machinery and Equipment | 1,238,166 | * | * |
| Motor Vehicles | 28,486 | 175,585 | 378 |
| Furniture and Fittings | 309,584 | * | * |
| Leased Assets | 1,156,545 | 7,698,235 | 229 |

(*) Insurance amounts of Machinery and Equipment and Furniture and Fittings are shown in the insurance value of Leased Assets and the coverage percentage is calculated over the total.

17. GUARANTEES AND MORTGAGES RECEIVED

As at 31 December 2004, there are no mortgages received (31 December 2003: None). The estimated fair value of the marketable securities received from customers as guarantee amounted to NTL 11,546,541 (31 December 2003: NTL 17,132,299) with nominal value of NTL 3,513,654 (31 December 2003: NTL 5,238,011).

18. CONTINGENT LIABILITIES

Contingent liabilities are as follows:

| | 31 December 2004 | 31 December 2003 |
|--|--------------------|-------------------|
| | NTL | NTL |
| Letters of Guarantee Given | 20,583,438 | 20,708,307 |
| Repo Commitments | 109,451,544 | 24,866,187 |
| Reverse Repo Commitments on Behalf of Customers | 77,593,786 | 29,640,741 |
| Total | 207,628,768 | 75,215,236 |

19. BLOCKED DEPOSITS AT BANKS

As at 31 December 2004, there are no blocked deposits at banks (31 December 2003: None).

20. MARKETABLE SECURITIES AND THEIR MARKET VALUES

The marketable securities in the Company's portfolio as of 31 December 2004 are as follows:

| | Acquisition Cost | Carrying Value | Market Value |
|--------------------------------|-------------------|-------------------|-------------------|
| | NTL | NTL | NTL |
| 31 December 2004 | | | |
| Government Bonds (Portfolio) | 14,226,690 | 13,991,471 | 14,353,591 |
| Treasury Bills (Portfolio) | 183,893 | 184,263 | 184,899 |
| Foreign Securities (Portfolio) | 198,751 | 190,145 | 190,145 |
| Stock Certificates | 22,925,436 | 21,294,797 | 21,409,722 |
| Reverse Repo | 1,400,000 | 1,400,545 | 1,401,645 |
| Total | 38,934,770 | 37,061,221 | 37,540,002 |

31 December 2003

| | | | |
|--------------------------------|-------------------|-------------------|-------------------|
| Government Bonds (Portfolio) | 3,306,142 | 3,685,905 | 3,330,741 |
| Treasury Bills (Portfolio) | 3,803,391 | 3,797,522 | 3,854,626 |
| Foreign Securities (Portfolio) | 212,041 | 200,295 | 200,295 |
| Stock Certificates | 3,658,871 | 4,099,700 | 4,147,398 |
| Total | 10,980,445 | 11,783,422 | 11,533,060 |

The securities in the Company's long-term investment securities account as of the balance sheet date are as follows:

| | Acquisition Cost | Carrying Value | Market Value |
|-------------------------|-------------------|-------------------|-------------------|
| | NTL | NTL | NTL |
| 31 December 2004 | | | |
| Government Bonds | 11,963,343 | 10,847,056 | 11,003,540 |
| Total | 11,963,343 | 10,847,056 | 11,003,540 |

31 December 2003

| | | | |
|------------------|-------------------|-------------------|-------------------|
| Government Bonds | 8,363,159 | 13,065,126 | 13,719,193 |
| Treasury Bills | 2,315,766 | 2,705,632 | 2,746,388 |
| Total | 10,678,925 | 15,770,758 | 16,465,581 |

**NOTES TO THE BALANCE SHEET PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
AS AT 31 DECEMBER 2004 / (Continued)**

21. SECURITIES ISSUED BY SHAREHOLDERS, AFFILIATES AND SUBSIDIARIES

| 31 December 2004 | Number of Shares | Acquisition Cost NTL | Carrying Value NTL |
|---|----------------------|-------------------------|-----------------------|
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | 5,433,714,000 | 20,743,126 | 19,104,938 |
| Total | 5,433,714,000 | 20,743,126 | 19,104,938 |

31 December 2003

| | | | |
|---------------------------------------|--------------------|----------------|----------------|
| İş Gayrimenkul Yatırım Ortaklığı A.Ş. | 313,500,000 | 328,036 | 743,903 |
| T. İş Bankası A.Ş. (C) | 1,536,960 | 9,096 | 10,355 |
| Total | 315,036,960 | 296,145 | 662,558 |

22. DETAILS OF ACCOUNTS UNDER "OTHER" CAPTIONS IN THE FINANCIAL STATEMENTS WHICH EXCEED 20% OF THE TOTAL OF THE RELATED GROUP OR EXCEED 5% OF TOTAL ASSETS

a) Other Short-Term Trade Receivables

| | 31 December 2004 NTL | 31 December 2003 NTL |
|---|-------------------------|-------------------------|
| Receivable from Stock Exchange Money Market | 983,000 | 6,889,611 |
| Total | 983,000 | 6,889,611 |

b) Other Short-Term Receivables

| | 31 December 2004 NTL | 31 December 2003 NTL |
|---|-------------------------|-------------------------|
| Fund Management Commission Income Accrual | 487,762 | 1,462,074 |
| Portfolio Management Income | 28,306 | 101,078 |
| Advances Given | 68,458 | 55,949 |
| Equity Shares Commission Income Accrual | - | 137,206 |
| Equity Shares Transactions Income Accrual | - | 159,851 |
| Due From Personnel | 410,668 | 381,742 |
| Interest Income Accruals | 239,602 | 104,479 |
| Short-Term Prepaid Expenses | 145,373 | - |
| Total | 1,379,899 | 2,402,379 |

c) Other Current Assets

| | 31 December 2004 NTL | 31 December 2003 NTL |
|-----------------------------|-------------------------|-------------------------|
| Advance Tax | 3,785,934 | 4,413,612 |
| Prepaid Taxes and Funds | 109,528 | 67,003 |
| Short-Term Prepaid Expenses | 77,731 | 94,232 |
| Total | 3,973,193 | 4,574,847 |

NTL 3,785,934 above represents temporary taxes paid during 2004 (31 December 2003: NTL 4,413,612). NTL 109,528 prepaid taxes and funds represent prepaid withholding taxes transferred to the following period for offset against next year taxes (31 December 2003: NTL 67,003).

d) Other Financial Fixed Assets

| | 31 December 2004 | 31 December 2003 |
|--|------------------|------------------|
| | NTL | NTL |
| TSKB Menkul Değerler Yatırım A.Ş. | 42,038 | 39,442 |
| Vadeli İşlemler Eğitim ve Danışmanlık A.Ş. | 20,618 | 20,618 |
| Vadeli İşlem ve Opsiyon Borsası A.Ş. | 467,434 | 467,434 |
| İş Gayrimenkul Yatırım Ortaklığı A.Ş. | 7,384,233 | - |
| Total | 7,914,323 | 527,494 |

e) Other Tangible Fixed Assets

| | 31 December 2004 | 31 December 2003 |
|---------------|------------------|------------------|
| | NTL | NTL |
| Leased Assets | 4,126,479 | 4,126,479 |
| Total | 4,126,479 | 4,126,479 |

f) Other Intangible Fixed Assets (Net)

| | 31 December 2004 | 31 December 2003 |
|------------------------|------------------|------------------|
| | NTL | NTL |
| Leasehold Improvements | 1,388,971 | 1,155,954 |
| Total | 1,388,971 | 1,155,954 |

g) Other trade payables consist of borrowings from İMKB Takas ve Saklama Bankası A.Ş. stock exchange money market operations on behalf of the Company, and customer accounts as of 31 December 2004. As at the balance sheet date all of the money market transactions are done for customers.

| | 31 December 2004 | 31 December 2003 |
|--------------|------------------|------------------|
| | NTL | NTL |
| Customers | 552,000 | 6,798,539 |
| Total | 552,000 | 6,798,539 |

h) Other Short-Term Payables

| | 31 December 2004 | 31 December 2003 |
|---|------------------|------------------|
| | NTL | NTL |
| Expense Accruals | 263,074 | 300,844 |
| Registration Expense Payables | 108,724 | 261,822 |
| Registration Fees Payable to the Stock Exchange (*) | 1,440,648 | - |
| Total | 1,812,446 | 562,667 |

(*) It consists of installment payables to be paid to Republic of Turkey Prime Ministry Privatization Administration for public offerings of Türk Hava Yolları A.Ş.

**NOTES TO THE BALANCE SHEET PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
AS AT 31 DECEMBER 2004 / (Continued)**

i) Other Short-Term Provisions:

| | 31 December 2004 | 31 December 2003 |
|------------------------------------|------------------|------------------|
| | NTL | NTL |
| Legal Case Expenses | 278,701 | 177,295 |
| Payables to the Civil Defence Fund | - | 119,594 |
| Total | 278,701 | 296,889 |

Because of the changes in legislation, payables to the Civil Defence Fund in 2004 has been repealed. That's why in the accompanying financial statements, the balance is zero.

j) Other Services Given:

| | 31 December 2004 | 31 December 2003 |
|--|-------------------|------------------|
| | NTL | NTL |
| Fund Management Income | 6,061,511 | 4,795,389 |
| Corporate Finance Income | 4,594,284 | 592,982 |
| Portfolio Management Commission Income | 1,106,657 | 1,173,784 |
| Other | 22,893 | 349,389 |
| Total | 11,785,345 | 6,911,544 |

k) Other Operating Income:

| | 31 December 2004 | 31 December 2003 |
|---|-------------------|------------------|
| | NTL | NTL |
| Foreign Currency Difference Income | 5,844,228 | 626,914 |
| Foreign Currency Marketable Securities Trading Income | 4,526,261 | 4,220,297 |
| Income Accruals on Marketable Securities and Deposits | 404,987 | 1,617,585 |
| Other | 305,310 | 578,842 |
| Total | 11,080,786 | 7,043,638 |

l) Other Operating Expenses:

| | 31 December 2004 | 31 December 2003 |
|--|-------------------|------------------|
| | NTL | NTL |
| Losses on Sale of Foreign Currency Marketable Securities | 1,901,310 | 461,886 |
| Prior Year Income Discounts | 4,602,896 | 876,454 |
| Foreign Currency Loss | 5,729,807 | 641,988 |
| Expense Accruals of Marketable Securities on guarantee | 1,116,286 | - |
| Commissions Given to Agencies | 691,036 | 411,059 |
| Payables to Civil Defense Fund | - | 119,594 |
| Others | 87,184 | 671,996 |
| Total | 14,128,519 | 3,182,977 |

m) Other Extraordinary Income:

| | 31 December 2004 | 31 December 2003 |
|--|------------------|------------------|
| | NTL | NTL |
| Management Consulting Income given to Subsidiaries | 48,377 | 45,113 |
| Total | 48,377 | 45,113 |

23. RECEIVABLES FROM AND PAYABLES TO PERSONNEL INCLUDED IN OTHER RECEIVABLES AND OTHER SHORT OR LONG-TERM PAYABLES WHICH EXCEED 1% OF TOTAL ASSETS

As at 31 December 2004 there is no receivable from the personnel that exceeds 1% of total assets and under the account of other receivables and other long and short-term receivables (31 December 2003: None).

24. DOUBTFUL RECEIVABLES RELATING TO SHAREHOLDERS, ASSOCIATES AND SUBSIDIARIES

There is no doubtful receivable relating to shareholders, associates or subsidiaries as of 31 December 2004 (31 December 2003: None).

25. DOUBTFUL RECEIVABLES ALREADY DUE OR WILL BE DUE IN FUTURE

As of 31 December 2004, there are no doubtful receivables already due or will be due in future (31 December 2003: None).

26. DIRECT AND INDIRECT EQUITY INVESTMENTS

31 December 2004

| Subsidiaries and Other Long-Term Financial Assets | Investments NTL | Inv. % | Income Before Tax NTL | Net Income NTL | Financial Statement Preparation Standard | Opinion of Auditors |
|--|-------------------|--------|-----------------------|----------------|--|---------------------|
| Vadeli İşlem ve Opsiyon Borsası A.Ş. | 467,434 | 6 | * | * | * | * |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (**) | 15,887,925 | 20 | * | * | * | * |
| İş Portföy Yönetimi A.Ş. | 1,121,489 | 20 | * | * | * | * |
| Vadeli İşlemler Eğitim ve Danışmanlık A.Ş. | 20,618 | 1.7 | * | * | * | * |
| TSKB Menkul Değerler Yatırım A.Ş. | 42,038 | < 1 | * | * | * | * |
| İş Yatırım Ortaklığı A.Ş. | 3,352,731 | 9.6 | * | * | * | * |
| Camiş Menkul Değerler A.Ş. | 4,781,646 | 99.8 | * | * | * | * |
| İş Gayrimenkul Yatırım Ortaklığı A.Ş. | 7,384,233 | 1.7 | * | * | * | * |
| Total Subsidiaries and Other Long-Term Financial Assets | 33,058,114 | | | | | |

31 December 2003

| | | | | | | |
|--|-------------------|------|------------|------------|-----|-------------|
| Vadeli İşlem ve Opsiyon Borsası A.Ş. | 467,435 | 6 | * | * | * | * |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | 33,503,608 | 45 | 7,195,663 | 7,195,663 | CMB | Unqualified |
| İş Portföy Yönetimi A.Ş. | 667,843 | 20 | 7,088,933 | 4,643,273 | CMB | Unqualified |
| Vadeli İşlemler Eğitim ve Danışmanlık A.Ş. | 20,618 | 1.69 | * | * | * | * |
| TSKB Menkul Değerler Yatırım A.Ş. | 39,442 | < 1 | 657,489 | 355,509 | CMB | Unqualified |
| İş Yatırım Ortaklığı A.Ş. | 3,352,731 | 9.6 | 32,208,749 | 32,208,749 | CMB | Unqualified |
| Camiş Menkul Değerler A.Ş. | 4,781,233 | 99.8 | 858,616 | 858,616 | CMB | Unqualified |
| Total Subsidiaries and Other Long-Term Financial Assets | 42,833,321 | | | | | |

(*) As of the date of this report, financial statements of the company's subsidiaries, affiliates, and other long-term financial assets, prepared in accordance with CMB Communiqué No:XI/1 could not be acquired.

(**) As at the balance sheet date, the associates have been valued by its market price, and NTL 1,150,244 impairment loss has occurred, and allocated at the accompanying financial statements.

**NOTES TO THE BALANCE SHEET PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
AS AT 31 DECEMBER 2004 / (Continued)**

27. BONUS SHARES ISSUED BY AFFILIATES AND SUBSIDIARIES

In the current year, NTL 774,194 bonus shares were received from İş Gayrimenkul Yatırım Ortaklığı A.Ş. (31 December 2003: NTL 455,361 from İş Portföy Yönetimi A.Ş.).

28. NON-CASH RIGHTS ON PROPERTIES

There are no non-cash rights on properties as of 31 December 2004 (31 December 2003: None).

29. REVALUATION SURPLUS ON FIXED ASSETS

The Company applies inflation accounting according to Tax Law No. 5024 on its statutory records for the first time at the beginning of year 2004. According to inflation accounting, the Company does not calculate revaluation surplus on fixed assets at the current period and eliminates the revaluation surplus which is incurred until 31 December 2003 from its financial statements.

30. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

As at 31 December 2004, demand deposits of the Company denominated in foreign currencies amounted to US\$ 275,571 equivalent to NTL 369,777 and Euro 48,553 equivalent to NTL 88,696.

As at 31 December 2003, demand deposits of the Company denominated in foreign currencies amounted to US\$ 11,771 equivalent to NTL 16,430 and Euro 16,634 equivalent to NTL 33,044.

31. GUARANTEES GIVEN ON BEHALF OF SHAREHOLDERS, AFFILIATES AND SUBSIDIARIES

There are no guarantees given as of 31 December 2004 (31 December 2003: None).

32. PERSONNEL STRUCTURE

The number of personnel as at 31 December 2004 is 197, of which details are given below (31 December 2003:178):

| | 2004 Number | 2003 Number |
|------------------------|----------------|----------------|
| Executives | 34 | 32 |
| Managers | 19 | 17 |
| Specialists | 103 | 84 |
| Brokers | 23 | 23 |
| Administrative & Other | 18 | 22 |
| Total | 197 | 178 |

33. OTHER SIGNIFICANT MATTERS AFFECTING THE FINANCIAL STATEMENTS

a. In respect of the Communiqué No: XI/20 "Communiqué on the Amendment to the Communiqué on Preparation of Financial Statements in Hyperinflationary Periods" components of shareholders' equity should be stated at their nominal values in the financial statements. The total of indexation differences on these nominal values are disclosed under "Shareholders' Equity Inflation Restatement Differences".

On 29 March 2004, the accumulated losses have been offset against 31 December 2003 net income, accumulated profits, extraordinary reserves, legal reserves and inflation adjustment differences on shareholders' equity arising from the inflation adjustment respectively, as per the general commercial regulations and the Articles of the Company. Consequently, as at 31 December 2004 there is no retained earnings/(accumulated losses) balance resulting from balance sheet equalization as a consequence of the first time application of inflation accounting.

| | 31 December 2004 NTL |
|----------------------------------|-------------------------|
| Accumulated Losses | 43,409,179 |
| Extraordinary Reserves | (14,902,519) |
| Legal Reserves | (4,351,647) |
| Inflation Adjustment Differences | (24,155,013) |
| Total | - |

| Name | 31 December 2004 Before Elimination NTL | 31 December 2004 Elimination NTL | 31 December 2004 After Elimination NTL |
|------------------------|---|--|--|
| | Capital | 58,990,724 | (18,664,107) |
| Legal Reserves | 4,369,008 | (4,369,008) | - |
| Extraordinary Reserves | 1,121,898 | (1,121,898) | - |
| Total | 64,481,630 | (24,155,013) | 40,326,617 |

b. The cash outflow of NTL 4,030,589 resulting from net monetary loss was included in other cash outflows balance in the cash flow statement (31 December 2003: NTL 5,106,476).

c. During 2004 the Company did not realize any underwriting transactions.

| Company Name | Amount of Sales | | | |
|---|-------------------------|-------------------|--------------------|--------------------|
| | Realized by the Company | | Total Issue | |
| | Amount NTL | Lot | Amount NTL | Lot |
| Desa Deri Sanayi ve Ticaret A.Ş. | 6,093,735 | 2,176,334 | 21,315,000 | 7,612,500 |
| Türk Traktör ve Ziraat Makinaları A.Ş. | 6,109,144 | 763,643 | 93,983,708 | 11,747,963 |
| Doğuş Otomotiv Servis ve Ticaret A.Ş. | 3,762,956 | 557,475 | 256,162,500 | 37,950,000 |
| Denizbank A.Ş. | 1,117,763 | 388,787 | 208,437,500 | 72,500,000 |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | 12,774,513 | 3,361,714 | 32,228,750 | 8,481,250 |
| Türk Hava Yolları A.O. | 194,615,578 | 27,901,875 | 269,802,051 | 40,250,000 |
| Total | 224,473,689 | 35,149,828 | 881,929,509 | 178,541,713 |

**NOTES TO THE BALANCE SHEET PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
AS AT 31 DECEMBER 2004 / (Continued)**

The table below represents a summary of underwriting transactions realized during 2003:

| Company Name | Amount of Sales Realized by the Company | | Total Issue | |
|---------------------------------------|--|------------------|--------------------|-------------------|
| | Amount | Lot | Amount | Lot |
| | NTL | | NTL | |
| Beşiktaş Futbol Yatırımları A.Ş. | 5,984,293 | 80,235 | 24,351,862 | 326,500 |
| Atakule Gayrimenkul Yatırım Ortaklığı | 3,167,417 | 2,123,373 | 32,891,794 | 22,050,000 |
| Petrol Ofisi A.Ş. | 47,293,599 | 1,411,135 | 226,715,556 | 6,500,000 |
| Total | 56,445,309 | 3,614,473 | 283,959,212 | 28,876,500 |

d. Marketable securities which are held in custody on behalf of the customers as at the balance sheet date are as follows:

| | 2004 | 2003 |
|-------------------------------|----------------------|----------------------|
| | Nominal Value NTL | Nominal Value NTL |
| Shares | 146,194,965 | 88,696,184 |
| Government Bonds | 1,014,452,278 | 768,178,373 |
| Treasury Bills | 251,982,995 | 149,840,565 |
| Investment Fund Participation | 5,000,000 | 3,000,000 |
| Foreign Bonds | 273 | 229 |

**NOTES TO THE INCOME STATEMENT PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUE NO: XI-20
FOR THE YEAR ENDED 31 DECEMBER 2004**

1. The depreciation and the amortization charges for the period are NTL 1,760,802 (2003: NTL 1,914,816).

| | 2004 NTL | 2003 NTL |
|-------------------------|------------------|------------------|
| a. Depreciation charges | 1,308,395 | 1,345,150 |
| b. Amortization charges | 452,407 | 569,666 |
| Total | 1,760,802 | 1,914,816 |

2. The provision expense for the current period consists of NTL 260,562 of retirement pay provision (2003: NTL 275,480); NTL 122,961 of litigation provisions (2003: None); (2003: NTL 119,594 Civil Defence Fund).

3. The financial expenses for the period amounted to NTL 74,531.

| | 2004 NTL | 2003 NTL |
|---------------------------------|-------------|-------------|
| a. Included in Cost of Sales | - | - |
| b. Capitalized on Fixed Assets | - | - |
| c. Directly Recorded as Expense | 74,531 | 375,747 |

4. Financial expenses related to affiliates, subsidiaries and equity participations for the current period:

There are NTL 19,215 financial expenses related to the shareholder, T. İş Bankası A.Ş. for the current period (2003: NTL 3,908).

5. Sales and purchases from shareholders, associates and subsidiaries are as follows:

2004

| | Transaction Made | Purchases- NTL | Sales- NTL |
|---|------------------|----------------|---------------|
| Türkiye İş Bankası A.Ş. | Share Purchase | 4,028,543,950 | 4,311,458,492 |
| İş Factoring Finansman Hizmetleri A.Ş. | Reverse Repo | 14,167,132 | 14,179,662 |
| İş Factoring Finansman Hizmetleri A.Ş. | Repo | 119,961,480 | 120,040,264 |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | Share Purchase | 38,204,457 | 9,737,657 |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | Reverse Repo | 10,332,691 | 10,329,097 |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | Foreign Currency | 38,023,572 | 114,527,086 |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | Repo | 11,339,095 | 11,348,220 |
| İş Genel Finansal Kiralama A.Ş. | Reverse Repo | 3,216 | 3,219 |
| İş Genel Finansal Kiralama A.Ş. | Purchase/ Sale | 13,378,370 | 20,667,605 |
| İş Yatırım Ortaklığı A.Ş. | Purchase/ Sale | 251,700,898 | 259,781,103 |
| İş Yatırım Ortaklığı A.Ş. | BPP Transactions | 612,056,000 | - |

**NOTES TO THE INCOME STATEMENT PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
FOR THE YEAR ENDED 31 DECEMBER 2004 / (Continued)**

2003

| | Transaction Made | Purchases- NTL | Sales- NTL |
|--|------------------|----------------|---------------|
| Türkiye İş Bankası A.Ş. | Share Purchase | 2,514,491,860 | 2,747,749,358 |
| İş Factoring Finansman Hizmetleri A.Ş. | Reverse Repo | 109,062,711 | 109,209,371 |
| İş Factoring Finansman Hizmetleri A.Ş. | Repo | 40,118,652 | 40,157,372 |
| İş Risk Sermayesi Yatırım Ortaklığı A.Ş. | Share Purchase | 4,970,466 | 4,675,525 |
| İş Genel Finansal Kiralama A.Ş. | Reverse Repo | 541,803 | 542,243 |
| İş Genel Finansal Kiralama A.Ş. | Repo | 685 | 686 |
| İş Genel Finansal Kiralama A.Ş. | Purchase/ Sale | 14,751,456 | 7,688,366 |
| İş Risk Sermayesi Yatırım Ortaklığı A.Ş. | Reverse Repo | 119,713,355 | 119,904,363 |
| İş Risk Sermayesi Yatırım Ortaklığı A.Ş. | Repo | 12,313,981 | 12,334,695 |
| İş Yatırım Ortaklığı A.Ş. | Purchase/ Sale | 156,868,337 | 153,530,688 |
| İş Yatırım Ortaklığı A.Ş. | BPP transactions | 249,832,642 | 250,162,896 |

Commissions paid and received from shareholders, associates and subsidiaries are as follows:

| | 2004 Received commissions | 2003 Received commissions |
|---|---------------------------------|---------------------------------|
| Türkiye İş Bankası A.Ş. | 5,943,651 | 5,697,663 |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | 171,169 | 24,227 |
| İş Yatırım Ortaklığı A.Ş. (*) | 53,432 | 821,166 |
| İş Yatırım Ortaklığı A.Ş. (**) | 686,498 | 989,984 |
| İş Factoring Finansman Hizmetleri A.Ş. | 419 | 4,097 |
| İş Genel Finansal Kiralama A.Ş. | 4,961 | 4,466 |

(*) Commission income from transactions

(**) Portfolio management commission income

The Company follows the transactions that are made on behalf of Türkiye İş Bank customers under Türkiye İş Bank account. The commission income received over this account is NTL 6,381,908 (2003: NTL 5,004,964).

6. Rents paid to shareholders, associates and subsidiaries are as follows:

| | 2004 Rent paid NTL | 2004 Rent Received NTL | 2003 Rent paid NTL | 2003 Rent Received NTL |
|---------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|
| İş Gayr. Yatırım Ortaklığı A.Ş. | 1,342,107 | - | 1,993,770 | - |
| İş Genel Finansal Kiralama A.Ş. | 1,054 | - | 2,155 | - |
| İş Portföy Yönetimi A.Ş. | - | - | - | 89,182 |
| Total | 1,343,161 | - | 1,995,925 | 89,182 |

7. The total of salary and fringe benefits for executives is NTL 2,681,508 in the current period (2003: NTL 3,146,409).

8. Depreciation calculation methods and effects of changes in depreciation calculation methods on current year depreciation expense:

Tangible fixed assets acquired before 1 January 2004 are depreciated on a straight line basis using the appropriate rates; tangible fixed assets acquired after that date are depreciated by using the new depreciation rates announced by Tax Procedure Code No:5024. Such a change is reflected in the statement of income.

9. Since the Company has no inventory as at 31 December 2004, there is not an inventory cost calculation system. However, the Company uses the weighted-average cost system to record marketable securities.

10. Since the Company has no inventory as at 31 December 2004, inventory count was not made. The Company's marketable securities were held on at the İstanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası A.Ş. ("Takasbank") and Clear Stream Bank Luxemburg.

11. There is no service or by-product or scrap sales exceeding 20% of sales.

12. There are no subsidies relating to the 2004 sales of the Company.

13. There is no previous period income or loss in the income statement.

**NOTES TO THE INCOME STATEMENT PREPARED IN
ACCORDANCE WITH CMB COMMUNIQUÉ NO: XI-20
FOR THE YEAR ENDED 31 DECEMBER 2004 / (Continued)**

14. Profit and dividend per preferred and common share:

The Company is preparing its profit distribution in compliance with the CMB decisions 51/1747 dated 30 December 2004 and 7/242 dated 25 February 2005. As of the date of this report, the Company's Board of Directors has not yet proposed dividends per share for the year 2004 to be approved at the annual general meeting of shareholders. Accordingly, a profit distribution table is not presented in the accompanying financial statements.

Profit per share (Profit per NTL 1 Nominal Value) is shown below:

2004:

Profit per NTL 1 Nominal Value Share (NTL) $\frac{11,337,105}{45,000,000 \text{ Share}} = 0,2519 \text{ 25.19\%}$
Profit per share (NTL):

| Group | Number of shares | Profit per share | (NTL/%) |
|-------|------------------|------------------|---------|
| A | 150,000 | 0.2519 | 25.19 |
| B | 44,850,000 | 0.2519 | 25.19 |

2003:

Profit per NTL 1 Nominal Value Share (NTL) $\frac{11,434,218}{45,000,000 \text{ Share}} = 0,2541 \text{ 25.41\%}$
Profit per share (NTL):

| Group | Number of shares | Profit per share | (NTL/%) |
|-------|------------------|------------------|---------|
| A | 150,000 | 0.2541 | 25.41 |
| B | 44,850,000 | 0.2541 | 25.41 |

15. Changes in the Company's goods and services production quantities in the period: None.

16. Changes in the Company's goods and services sales quantities in the period: None.



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