

**Enka İnřaat ve Sanayi
Anonim řirketi and its
Subsidiaries**

**Consolidated Financial Statements
December 31, 2004**

ENKA İNŞAAT VE SANAYİ ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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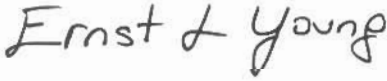
REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Enka İnşaat ve Sanayi Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Enka İnşaat ve Sanayi Anonim Şirketi and its Subsidiaries (Enka İnşaat and its Subsidiaries - the Group) as of December 31, 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of the consolidated entities, Moskva Krasnye Holmy (MKH) and Limited Liability Company Ramenka (Ramenka) of which statements reflect total assets constituting 12% and net income constituting 9% of the related consolidated totals as of December 31, 2004. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion insofar as they relate to data included for the above mentioned companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion and based on the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Enka İnşaat ve Sanayi Anonim Şirketi and its Subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.



April 8, 2005
İstanbul, Turkey

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

CONSOLIDATED BALANCE SHEET

As at December 31, 2004

(Currency -- U.S. Dollars)

ASSETS

	Notes	2004	2003
Current assets			
Cash and cash equivalents	4	344,032,657	215,229,389
Investments available-for-sale	5	229,673,071	229,601,767
Accounts receivable	6	353,069,740	145,924,674
Inventories	7	94,870,325	54,554,964
Other current assets	8	153,488,238	35,969,120
Company's share in current assets of joint ventures	9	120,065,355	121,258,335
Costs and estimated earnings in excess of billings on uncompleted contracts	10	11,588,982	6,393,955
Total current assets		1,306,788,368	808,932,204
Non-current assets			
Accounts receivable	6	29,242,695	40,961,829
Investments in associates	11	5,679,682	289,256,031
Investments available-for-sale	5	690,748	6,610,839
Property, plant and equipment			
Company	13	1,853,609,253	167,748,432
Company's share in joint ventures	9	49,310,726	35,938,879
Intangible assets	14	17,607,871	17,059,870
Goodwill	21	38,113,342	(16,327,623)
Investment properties	15	571,135,665	475,710,497
Other non-current assets	8	68,535,309	32,321,981
Deferred tax asset	19	166,433,984	3,917,347
Company's share in non-current assets of joint ventures	9	28,758	13,435
Total non-current assets		2,800,388,033	1,053,211,517
Total assets		4,107,176,401	1,862,143,721

The accompanying policies and explanatory notes on pages 7 through 53 form an integral part of the consolidated financial statements.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

CONSOLIDATED BALANCE SHEET

As at December 31, 2004

(Currency -- U.S. Dollars)

LIABILITIES AND EQUITY

	Notes	2004	2003
Current liabilities			
Short-term borrowings	16	45,921,107	15,874,855
Current portion of long-term borrowings	16	233,020,312	44,524,768
Accounts payable	17	255,277,114	117,679,217
Other current liabilities and accrued expenses	18	134,254,534	41,777,382
Taxation on income	19	33,471,025	5,669,667
Company's share in current liabilities of joint ventures	9	66,867,654	66,619,592
Billings in excess of costs and estimated earnings on uncompleted contracts	10	9,646,287	7,827,166
Total current liabilities		778,458,033	299,972,647
Non-current liabilities			
Accounts payable	17	6,445,782	1,081,991
Long-term borrowings	16	1,262,775,633	196,492,570
Employee termination benefit	20	9,342,449	6,676,090
Deferred tax liability	19	139,125,700	121,690,463
Other non-current liabilities and accrued expenses	18	324,282,254	-
Company's share in non-current liabilities of joint ventures	9	35,946,158	10,652,369
Total non-current liabilities		1,777,917,976	336,593,483
Minority interests	22	167,646,372	111,506,346
Equity			
Share capital	23	115,952,128	80,004,181
Revaluation surplus	13	14,819,725	14,680,842
Currency translation difference		45,936,648	27,592,930
Other comprehensive income		(2,393,899)	-
Legal reserves and accumulated profit	24	1,208,839,418	991,793,292
Total equity		1,383,154,020	1,114,071,245
Total equity and liabilities		4,107,176,401	1,862,143,721

The accompanying policies and explanatory notes on pages 7 through 53 form an integral part of the consolidated financial statements.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2004

(Currency -- U.S. Dollars)

	Notes	2004	2003
Revenues		1,877,465,901	1,041,214,788
Cost of revenues		(1,440,501,332)	(790,985,406)
Gross profit		436,964,569	250,229,382
Selling and administrative expenses		(164,547,416)	(112,552,580)
Other operating income	27	56,026,179	30,663,666
Other operating expense	27	(18,905,552)	(19,604,760)
Profit from operations		309,537,780	148,735,708
Financial income	27	58,148,578	46,297,389
Financial expenses	27	(61,871,181)	(16,436,777)
Income from associates		17,901,577	41,122,828
Profit from operations before taxes, translation gain and minority interest		323,716,754	219,719,148
Translation gain, net		19,398,369	9,199,801
Profit before taxes and minority interest		343,115,123	228,918,949
Taxation charge			
Current	19	(37,885,864)	(32,638,530)
Deferred	19	15,216,353	7,456,884
Net profit before minority interest		320,445,612	203,737,303
Minority interests	22	(48,003,139)	(10,887,409)
Net profit		272,442,473	192,849,894
Weighted average number of shares	23	200,000,000,000	200,000,000,000
Basic earnings per share - U.S. Dollar	25	0.00136	0.00096

The accompanying policies and explanatory notes on pages 7 through 53 form an integral part of the consolidated financial statements.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2004

(Currency -- U.S. Dollars)

	Share Capital	Revaluation Surplus	Currency Translation Difference	Other Comprehensive Income	Legal Reserves and Accumulated Profit	Total Equity
Balances, January 1, 2003	56,263,395	12,679,206	11,561,000	-	838,357,342	918,860,943
Currency translation difference	-	685,405	16,031,930	-	-	16,717,335
Share capital increase from general reserve	23,740,786	-	-	-	(23,740,786)	-
Transfer of depreciation difference (net of deferred tax) of revaluation effect	-	(402,348)	-	-	402,348	-
Current year revaluation adjustment	-	1,718,579	-	-	-	1,718,579
Dividends paid	-	-	-	-	(16,075,506)	(16,075,506)
Net profit	-	-	-	-	192,849,894	192,849,894
Balances, December 31, 2003	80,004,181	14,680,842	27,592,930	-	991,793,292	1,114,071,245
Currency translation difference	-	584,399	18,343,718	-	-	18,928,117
Share capital increase from general reserve	31,451,118	-	-	-	(31,451,118)	-
Transfer of depreciation difference (net of deferred tax) of revaluation effect	-	(445,516)	-	-	445,516	-
Fair value adjustment on derivative assets	-	-	-	(2,393,899)	-	(2,393,899)
Dividends paid	-	-	-	-	(19,893,916)	(19,893,916)
Net profit	-	-	-	-	272,442,473	272,442,473
Share capital increase from investment sales profit	4,496,829	-	-	-	(4,496,829)	-
Balances, December 31, 2004	115,952,128	14,819,725	45,936,648	(2,393,899)	1,208,839,418	1,383,154,020

The accompanying policies and explanatory notes on pages 7 through 53 form an integral part of the consolidated financial statements.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended December 31, 2004 (Currency -- U.S. Dollars)

	2004	2003
Cash flows from operating activities		
Net profit before taxes	295,111,984	218,031,540
Adjustments to reconcile net profit to net cash provided by operating activities :		
Income from associates	(17,901,577)	(41,122,828)
Depreciation and amortization	29,145,227	27,779,348
Forward income	(523,052)	(8,734,072)
Provision for legal cases	590,046	2,700,000
Reversal of employee termination benefit	1,870,764	1,113,992
Fair value adjustment on investment properties	(36,836,845)	1,524,075
Reversal of provision for VAT	-	(1,572,702)
Impairment provision for subsidiaries and investments in associates	2,521,029	1,414,791
Bonus accruals, net	1,053,500	998,075
Provision for inventory obsolescence	844,164	119,496
Provision for doubtful receivables	3,542,236	116,591
Revenue levelization adjustment	76,533,296	-
Other adjustments	1,555,351	6,028,464
Change in minority interest	48,003,139	8,858,076
Taxes paid	(43,253,369)	(34,120,788)
Interest income	(24,104,419)	(23,195,958)
Interest expense	47,587,349	6,024,348
Changes in assets and liabilities		
(Increase) in time deposits with maturities more than 3 months	(34,700,000)	(9,200,000)
(Increase) in accounts receivable	(9,136,478)	(69,020,888)
(Increase) in inventories	(41,159,524)	(16,704,118)
(Increase) in costs and estimated earnings in excess of billings on uncompleted contracts	(5,195,027)	(4,528,942)
Decrease (increase) in Company's share in assets of joint ventures	1,177,657	(42,672,824)
(Increase) in other assets	(37,313,731)	(16,579,776)
Increase in accounts payable	10,850,933	32,712,864
Increase in billings in excess of costs and estimated earnings on uncompleted contracts	1,819,121	3,615,339
Increase in Company's share in liabilities of joint ventures	25,541,851	19,966,217
(Decrease) increase in other liabilities and accrued expenses	(67,625,201)	1,345,143
Net cash provided by operating activities	229,998,424	64,895,463
Cash flows from investing activities		
Decrease (increase) in investments available for sale	5,848,787	(13,834,897)
Decrease (increase) in investments in associates	2,287,354	(8,844,202)
Proceeds from sale of property, plant and equipment and intangible assets	21,021,370	6,070,433
Purchases of property, plant and equipment and intangible assets	(172,554,727)	(79,956,898)
Cash used in investing acquisition of power companies net of cash acquired	28,758,789	-
Share capital increase from investment sales profit	4,496,829	-
Net cash used in investing activities	(110,141,598)	(96,565,564)
Cash flows from financing activities		
(Decrease) increase in long-term borrowings and current portion of long-term borrowings	(23,319,839)	85,619,890
Increase (decrease) in short-term borrowings	30,046,252	(7,399,618)
Dividends paid	(24,706,171)	(16,075,506)
Net cash (used in) provided by financing activities	(17,979,758)	62,144,766
Negative goodwill	-	16,327,623
Exchange and remeasurement adjustment	5,366,201	(12,265,676)
Interest received	24,057,188	27,431,627
Interest paid	(37,197,189)	(5,279,080)
Net increase in cash and cash equivalents	94,103,268	56,689,159
Cash and cash equivalents at beginning of year	184,229,389	127,540,230
Cash and cash equivalents at end of year	278,332,657	184,229,389

For the purpose of the statement of cash flows, the Company considers cash on hand and in banks as short-term deposits with an original maturity of three months or less as cash and cash equivalents. Accordingly, time deposits as of December 31, 2004 and 2003 amounting to U.S. Dollars 65,700,000 and U.S. Dollars 31,000,000 respectively are excluded from cash and cash equivalents.

The accompanying policies and explanatory notes on pages 7 through 53 form an integral part of the consolidated financial statements.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

1. ORGANIZATION AND NATURE OF ACTIVITIES

General

Enka İnşaat ve Sanayi Anonim Şirketi (Enka İnşaat) was established on December 4, 1967 and registered in İstanbul, Turkey, under the Turkish Commercial Code. The address of the headquarters and registered office of Enka İnşaat is Balmumcu Bestekar Şevki Bey Sokak, 34349 Enka Binası Beşiktaş, İstanbul, Turkey.

As of June 30, 2002 Enka İnşaat merged legally with its publicly traded shareholder company, Enka Holding Yatırım Anonim Şirketi (Enka Holding), which were under the common control of Tara Holding Anonim Şirketi and Tara and Gülçelik families. After the merger, shares of Enka İnşaat are traded publicly in İstanbul Stock Exchange.

The Company adopted all standards, which were mandatory as of December 31, 2004. The consolidated financial statements of Enka İnşaat are authorised for issue by the management on April 8, 2005. Although there is no such intention, the General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of the Activities

Enka İnşaat operates in five major geographical areas, which are as follows:

Turkey: engaged in diverse types of construction activities including construction of industrial and social buildings, motorways and natural gas fired electrical energy generation facilities.

Commonwealth of Independent States (CIS): engaged in construction activities in Russia, Kazakhstan and also engaged in the development and management of real estate properties, which are leased to tenants in Moscow, Russia, as well as run a network of hyperstores and shopping malls in Moscow, and also plans to construct further hyperstores and smaller shopping centers.

Africa: engaged in construction activities in different countries.

Asia: engaged in construction activities in Nepal.

Europe: engaged in construction and trading activities in Croatia, Romania, Germany and Holland.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2004 (Currency -- U.S. Dollars unless otherwise indicated)

1. ORGANIZATION AND NATURE OF ACTIVITIES (continued)

Enka İnşaat has the following subsidiaries, whose business and country of incorporation are provided below:

Name of Subsidiary	Nature of Business Activities	Country of Incorporation
Çimtaş Çelik İmalat Montaj ve Tesisat Anonim Şirketi (Çimtaş)	Construction	Turkey
Enmar Closed Joint-Stock Company (Enmar)	Construction	Russia
Kasktaş Kayar Kalıp Altyapı Sondaj Kazık ve Tecrit Anonim Şirketi (Kasktaş)	Construction	Turkey
Titaş Toprak İnşaat ve Taahhüt Anonim Şirketi (Titaş)	Construction	Turkey
Enka Teknik Genel Müteahhitlik, Bakım, İşletme, Sevki ve İdare Anonim Şirketi (Enka Teknik)	Construction	Turkey
Pimaş Plastik İnşaat Malzemeleri Anonim Şirketi (Pimaş)	Manufacturing	Turkey
Kelebek Mobilya ve Kontrplak Sanayi Anonim Şirketi (Kelebek Mobilya)	Manufacturing	Turkey
Altaş El Aletleri Dövme Çelik Sanayi ve Ticaret Anonim Şirketi (Altaş)	Trade	Turkey
Enka Pazarlama İhracat İthalat Anonim Şirketi (Enka Pazarlama)	Trade	Turkey
Entaş Nakliyat ve Turizm Anonim Şirketi (Entaş)	Trade	Turkey
Entrade GmbH (Entrade)	Trade	Germany
Air Enka Hava Taşımacılığı A.Ş. (Air Enka)	Trade	Turkey
Enka Holding B.V.	Investment Company	Holland
Enka Holding Investment S.A.	Investment Company	Switzerland
Moskva Krosnye Holmy (MKH)	Rental	Russia
Opened Joint-Stock Company Mosenka (Mosenka)	Rental	Russia
İzmir Elektrik Üretim Limited Şirketi (İzmir Elektrik)	Energy	Turkey
Gebze Elektrik Üretim Limited Şirketi (Gebze Elektrik)	Energy	Turkey
Adapazarı Elektrik Üretim Limited Şirketi (Adapazarı Elektrik)	Energy	Turkey
Enka Adapazarı Power Investment B.V (Adapazarı B.V)	Energy	Holland
Enka Gebze Power Investment B.V (Gebze B.V)	Energy	Holland
Enka İzmir Power Investment B.V (İzmir B.V)	Energy	Holland
Enka Power Investment B.V.	Energy	Holland

The construction contracts are undertaken by Enka İnşaat alone or together with its affiliated companies or, in partnerships with other contractors through joint ventures. Enka İnşaat has the following joint ventures, which will be dissolved after the completion of the construction project, as listed below:

Enka-Bechtel Müşterek Teşebbüs Ortaklığı (Turkey)
Bechtel-Enka Joint Venture (Kazakhstan)
Bechtel-Enka Joint Venture Okioc (Kazakhstan)
Bechtel-Enka Holland Project (Holland)
Bechtel International Incorporation (Croatia)
Bechtel-Enka Power Projects (Turkey)
Cadell Construction Company Inc. (Africa)
Bechtel-Enka Technostroyexport Joint Venture (Sakhalin)
Bechtel-Enka Romania Project (Romania)
Bechtel-Kentech International Limited (Grand-Cayman Islands)

In addition to the above listed joint ventures, Enka İnşaat has also 50% ownership in Limited Liability Company Ramenka, which is domiciled in Russia and operates retail supermarkets and rents floor spaces of the shopping malls to other trading companies.

For the purpose of the consolidated financial statements, Enka İnşaat, its consolidated subsidiaries and its joint ventures are referred as “the Company”. İzmir Elektrik Üretim Limited Şirketi, Adapazarı Elektrik Üretim Limited Şirketi and Gebze Elektrik Üretim Limited Şirketi here and after are referred to as “Power Companies”.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

Enka İnşaat and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in New Turkish Lira (YTL) in accordance with the regulations on accounting and reporting framework and accounting standards promulgated by the Turkish Capital Market Board (TCMB), (for publicly traded companies) and Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiaries maintain their books of accounts in accordance with the laws and regulations in force in the countries where they are registered. The consolidated financial statements in U.S. Dollars are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The Company also reported separately for the consolidated financial statements for the same period prepared in accordance with accounting principles promulgated by TCMB.

The significant differences between the consolidated financial statements prepared in accordance with the accounting policies promulgated by TCMB and consolidated IFRS financial statements can be summarized as follows:

- Foreign currency translation
- Accounting for construction contracts
- Recognition of deferred tax effects of taxable temporary differences
- Recognition and measurement of financial instruments
- Accounting for investment property and revaluation of property, plant and equipment with market values

Functional Currency, Reporting Currency and Translation Methodology

The consolidated financial statements have been drawn up in U.S. Dollar to deal with the initial recording and translated of transactions denominated in New Turkish Lira (YTL) and other currencies in accordance with International Accounting Standard (IAS) 21 - The Effects of Changes in Foreign Exchange Rates, as described below. As significant amount of construction and real estate operations of Enka İnşaat, its consolidated subsidiaries and its joint ventures which form main part of the operations of the Company are carried out in U.S. Dollar or indexed to U.S. Dollar, this currency is selected as the measurement and the reporting currency of the Company in line with IAS 21 and IAS 29 - Financial Reporting in Hyperinflationary Economies.

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

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional currency of certain subsidiaries operating in Turkey is New Turkish Lira. Since Turkish Economy is considered as hyperinflationary in 2004 and 2003, such subsidiaries restated their financial statements under the provisions of IAS 29, before translating into U.S. Dollar.

The main guidelines for the translation within the context of IAS 21 are as follows:

Monetary assets and liabilities are translated from New Turkish Lira and other currencies into U.S. Dollar at exchange rates prevailing at the respective balance sheet dates. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at the transaction dates and revenues and costs are translated either at historical rates or monthly average exchange rates.

Exchange gains and losses arising from translation of monetary assets and liabilities that are not denominated in U.S. Dollar are credited or charged to consolidated statement of income as net translation gain or loss.

Within Turkey, official exchange rates of the New Turkish Lira (YTL) are determined by the Central Bank of Turkey (CBT) and are generally considered to be a reasonable approximation of market rates. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (CBRF), which is also a reasonable approximation of market rates.

The rates used as of December 31, 2004 and 2003 and the rate as of the preparation date of the consolidated financial statements for one U.S. Dollar can be summarized as below:

	Preparation Date (April 8, 2005)		December 31, 2004		December 31, 2003	
U.S. Dollar	1.335600	YTL	1.342100	YTL	1.395835	YTL
	27.81	RR	27.74	RR	29.45	RR
	0.77	Euro	0.73	Euro	0.80	Euro
	1.202	Swiss Francs	1.137	Swiss Francs	1.250	Swiss Francs

The translation of assets and liabilities denominated in New Turkish Lira and various other local currencies into U.S. Dollar for the purpose of the consolidated financial statements does not necessarily mean that the Company could realize or settle in U.S. Dollar the same values of the assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Company could return or realize the same U.S. Dollar value of capital and general reserve to its shareholders.

Reclassifications on 2003 financials

Certain reclassifications have been made on the financial statements as of December 31, 2003 and the statements of changes in shareholders' equity and cash flows for the purpose of consistent presentation with that as of December 31, 2004. To ensure comparability with the current year, deferred tax asset amounting to U.S. Dollars 3,917,347 has been reclassified to deferred tax asset from deferred tax liability.

Basis of Consolidation

The consolidated financial statements include the accounts of Enka İnşaat, its joint ventures and its subsidiaries presented as a single economic entity. The subsidiaries are companies in which Enka İnşaat, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to govern their financials and operating policies so as to obtain benefits from their activities.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The subsidiaries included in consolidation and their shareholding percentages at December 31, 2004 and 2003 are as follows:

Company Name	Direct / Indirect Ownership	
	2004	2003
Enka Holding B.V.	100.00%	100.00%
Enka Holding Investment S.A.	100.00%	100.00%
Enmar	100.00%	100.00%
Entrade	100.00%	100.00%
Adapazarı B.V	100.00%	-
Gebze B.V	100.00%	-
İzmir B.V	100.00%	-
Enka Power Investment B.V	100.00%	-
Air Enka	99.99%	99.99%
Metra Akdeniz Dış Ticaret Anonim Şirketi (*)	99.99%	99.99%
Enka Pazarlama	99.97%	99.97%
Enmar Trading (*)	99.97%	-
Entaş	99.93%	99.93%
Susanbaş Değirmencilik A.Ş.(*)	99.35%	-
Çimtaş	95.05%	95.05%
Çimtaş Mechanical Contracting B.V. (**)	95.05%	95.05%
Çimtaş (Ningbo) Steel Processing Company Ltd. (**)	95.05%	-
Titaş	90.71%	90.71%
Burtrak Burdur Traktör ve Önyükleyici Sanayi Ticaret Anonim Şirketi (*)	90.05%	90.05%
İzmir Elektrik (***)	90.00%	49.00%
Adapazarı Elektrik (***)	90.00%	49.00%
Gebze Elektrik (***)	90.00%	49.00%
Pimaş	87.25%	87.25%
Altaş	86.12%	86.12%
Kasktaş	77.32%	77.32%
Enka Teknik	69.86%	69.86%
Kelebek Mobilya	63.08%	63.08%
Mosenka	55.00%	55.00%
MKH	52.00%	52.00%
Çimtaş Boru İmalatları ve Ticaret Limited Şirketi (**)	50.00%	50.00%

(*) Consolidated in Enka Pazarlama's financial statements

(**) Consolidated in Çimtaş's financial statements

(***) As of December 31, 2003, these investments have been accounted for under the equity method of accounting (See Note 11).

The Company's controlling interest in the following jointly controlled entities is accounted for by proportionate consolidation, which involves recognizing a proportionate share of the joint venture's assets and liabilities as a separate line and recognizing a proportionate share of the joint venture's income and expenses on a line by line basis with similar items in the consolidated financial statements.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The breakdown of the controlling interest of the joint ventures are as follows:

Joint Venture	2004	2003
Enka-Bechtel Müşterek Teşebbüs Ortaklığı (Turkey)	-	50
Bechtel-Enka Joint Venture (Kazakhstan)	50	50
Bechtel -Enka Joint Venture Okioc (Kazakhstan)	50	50
Bechtel-Kentech International Limited (Grand Cayman Islands)	50	50
Bechtel-Enka Holland Projects (Holland)	35	35
Bechtel International Incorporation (Croatia)	50	50
Bechtel - Enka Power Projects (Turkey)	50	50
Cadell Construction Company Inc. (Turkey)	-	50
Cadell Construction Company Inc. (Africa)	50	50
Bechtel-Enka Technostroyexport Joint Venture (Sakhalin)	50	50
Bechtel-Enka Joint Venture (Romania)	50	-

The Company has combined its share of the assets, liabilities, income and expense of Ramenka with the similar items in the consolidated financial statements on a line by line basis.

All significant inter-company transactions and balances between Enka İnşaat and its consolidated subsidiaries and joint ventures are eliminated. Minority interests represent the interest in consolidated subsidiaries, not held by the Company.

The investment in associates, which are accounted for under the equity method and their shareholding percentages are as follows:

Company Name	2004	2003
Gebze Elektrik(*)	90.00%	49.00%
İzmir Elektrik(*)	90.00%	49.00%
Adapazarı Elektrik(*)	90.00%	49.00%
Wall Şehir Dizaynı ve Ticaret Limited Şirketi	40.00%	40.00%

(*) On June 24, 2004 Enka İnşaat has purchased 25.00% shares of Power Companies, thus the share percentages increased to 74.00%. As of June 30, 2004, all balance sheet items of Power Companies have been fully consolidated whereas since the participation percentage was 49.00% up to June 30, 2004, interest of Enka İnşaat in Power Companies amounting to U.S. Dollar 16,663,341 derived from 49.00% participation has been recorded in income from associates line of consolidated statement of income. As of December 28, 2004, the Company has purchased 16.00% additional shares of these Power Companies, thus the percentages increased to 90.00%. As of December 31, 2004, all balance sheet items of Power Companies have been fully consolidated and the interest of Enka İnşaat in Power Companies for the second half of the year 2004 has been recorded in the consolidated statement of income as also mentioned in Note 13.

Foreign Currency Translation

Transactions in foreign currencies (i.e any currency other than U.S. Dollar) are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Trade receivables of the Company are recognized at original invoice and carried at amortised cost less an allowance for any uncollectible amounts. The collection term of the long-term trade receivables could extend up to the year of 2006 depending upon the agreement.

Collection terms of contract receivables vary depending upon the agreement that is generally 30 days.

Post-dated checks which are classified within accounts receivable and notes which are held to maturity are measured at amortized cost using the effective interest rate method.

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition, are accounted for as follows:

- Raw materials, spare parts, merchandise and construction materials - purchase cost on moving weighted average basis.
- Goods for resale - purchase cost on first-in, first-out (FIFO) method
- Finished goods - cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity.

The Company also provides an allowance for the slow moving items.

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

Investments Available-for-Sale

All investments are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the investment. After initial recognition, investments are measured at fair value, unless fair value can not be reliably measured. Any gain or loss arising from a change in fair value of such investments is included in the consolidated statement of income in the period in which it arises.

For investments traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, without deduction for transaction costs necessary to realize the asset.

For investments where there is no quoted market price or quoted market price is not indicative of the fair value of the instrument, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the securities. Investments, for which other methods of reasonably estimating fair values are clearly inappropriate or impractical, are stated at cost, less any impairment in value.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Associates

Investments in associates over which the Company has significant influence and the voting power between 20%-50% are accounted for under the equity basis of accounting. The consolidated statement of income reflects the Company's share of the current year results of operations of its associates accounted under the equity basis accounting.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation except for certain properties which are owner occupied and carried at market values. Depreciation is provided on all property, plant and equipment by the straight-line method on pro-rata basis at the rates which approximate estimated useful lives of the related assets as follows:

Land improvements	5-50 years
Buildings and barracks	5-50 years
Power plant equipment	35 years
Pipelines	16 years
Electrical interconnection lines	16 years
Machinery and equipment	5-10 years
Motor vehicles	3-10 years
Furniture and fixtures	5-10 years
Scaffolding and formworks	5 years
Others	5-10 years

Power plant equipment is recorded at its original cost of construction. Significant additions or improvements extending asset lives are capitalized. Expenditures for major replacements and renewals are capitalized while expenditures for maintenance, repairs and minor renewals to maintain facilities in operating condition are expensed as the work is incurred. Bonus payments paid to contractors in accordance with terms of construction contracts are capitalized when payment is probable.

The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an objective evidence that the asset is impaired, then the estimated recoverable amount of related asset is determined and any impairment loss recognized for the difference between the recoverable amount and the carrying amount is accounted for as an allowance on the balance sheet and the amount of the loss is included in the consolidated statement of income of the year.

Leases - The Company as Lessee

Finance leases

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

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating lease

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis (except for prepayments) over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

Prepayment for land leases

Prepayments for operational leases of land plots on which hyperstores are constructed are expensed over the life of the respective lease which in general equals to 49 years.

Leases – The Company as Lessor

Operating Lease

Lease income from operating leases is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Costs, including depreciation, incurred in earning the lease income are recognised as an expense. Initial direct costs incurred by the Company in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Intangible Assets

Intangible assets represent the land lease right and other intangible assets which represent various softwares that are amortized over 2 to 5 years. Land lease rights were amortized over 49 years as to the term of the land agreement.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the approximate fair value of the Company's share of the net assets of the acquired subsidiary/associate undertaking at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life and reviewed for impairment whenever events of changes in circumstances indicate that carrying amount of goodwill may not be recoverable. Whenever the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the statement of income.

Positive goodwill is amortized over 20 years on a straight-line basis whereas negative goodwill is being amortized on a systematic basis over the remaining weighted average useful life of the acquired non monetary assets, which is 35 years.

Investment Properties

Investment property is treated as a long-term investment and is carried at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings

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

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

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Accounts Payable

Liabilities for accounts payable which are settled with changing terms up to two years are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Employee Termination Benefits

(a) Defined Benefit Plans :

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

(b) Defined Contribution Plans

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

For Enka İnşaat and its Turkish subsidiaries provision was made for maximum amounts payable to employees, based on their accumulated periods of service at the balance sheet dates.

In the normal course of business, foreign subsidiaries and joint ventures contribute to the related government body for the pension scheme of its employees, in the country they are domiciled. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company in the economic environment in Turkey and other countries, in which the Company operates, at each balance sheet date.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax

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

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

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

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

Revenue and Cost Recognition

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

Construction contract activities

Contract revenue and costs are recognized as revenue and expenses, respectively, when the outcome of a construction contract can be estimated reliably. The percentage of completion method is used to recognize revenue on a contract as work progresses by matching contract revenue with contract costs incurred based on the proportion of work completed which is determined by the ratio of costs incurred through the end of the current year divided by the total estimated costs of the project.

Revenue arising from cost plus fee contracts is recognized on the basis of costs incurred plus a percentage of the contract fee earned during the year.

Contracts to manage, supervise or coordinate the construction activity of others are recognized only to the extent of the fee revenue.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the consolidated statement of income as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognised in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognised.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Energy activities

Revenues from the sale of electricity under long-term contracts are recognised on the average charge per kilowatt-hour over the life of the contract. Both the investment item revenues and the fuel cost item revenues under the contract are levelised accordingly. Revenues in excess of the average are recorded as deferred income and are recognised over the life of the project when actual charges are below the average.

Trading activities

Revenue from trading activities which consist of sales of goods is recognised when significant risks and rewards of ownership of the goods have been transferred to the buyer. Net sales represent the invoiced value of goods, net of sales returns and discounts.

Rental activities

Rental activities which consist of rental income from premises leased to tenants are recognised as earned on a monthly basis. Rental income collected in advance is treated as deferred income and is amortised on a monthly basis during the lease period.

Rendering of services

Revenue is recognized by reference to the stage of completion.

Interest revenue

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

Borrowing Costs

Interest costs on borrowings to finance the construction of investment property are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowings costs are recognised as an expense in the period in which they are incurred.

Derivative Financial Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value. Changes in the fair value of non-hedge derivatives are immediately recognized in earnings. Changes in fair values of derivatives accounted for as hedges are either recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other accumulated comprehensive income until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value is immediately recognized in earnings. The Company also formally assesses both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in either the fair value of cash flows of the hedged item. When it is determined that the derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting. The Company has cash flow hedge and the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity through the statement of changes in equity under other comprehensive income.

In the normal course of business, the Company employs a variety of financial instruments to manage its exposure to fluctuations in interest rates and foreign exchange rates. The Company does not enter into transactions for speculative purposes. Accordingly, the Company classifies its derivative financial instruments as held or issued for purposes other than trading.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and Derecognition of Financial Instruments

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

Offsetting

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

Uses of Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

3. SEGMENT INFORMATION

The Company's operating businesses are organized and managed separately according to the nature of services and products provided.

The segmental information of the Company is based on two formats. The first format represents information regarding business segments: construction, rental, retail, energy and trading and manufacturing. The second format represents information regarding four geographical segments for the year ended December 31, 2004 and 2003.

(a) Business Segments :

	2004						Consolidated
	Contracting	Rental	Retail	Trade and Manufacturing	Energy	Eliminations	
Revenues earned	640,965,224	91,305,417	193,799,000	348,642,010	602,754,250	-	1,877,465,901
Inter-segment revenues earned	119,621,315	-	-	2,997,238	-	(122,618,553)	-
Cost of revenues	(517,436,504)	(9,025,584)	(137,801,972)	(293,736,111)	(482,501,161)	-	(1,440,501,332)
Inter-segment cost of revenues	(128,123,297)	-	-	(3,074,002)	-	131,197,299	-
Gross profit	115,026,738	82,279,833	55,997,028	54,829,135	120,253,089	8,578,746	436,964,569
Selling and administrative expense	(63,231,601)	(17,909,349)	(37,455,000)	(36,881,175)	(9,625,097)	554,806	(164,547,416)
Other operating income and expense, net	25,707,566	35,420,311	1,228,689	(1,554,266)	(597,897)	(23,083,776)	37,120,627
Profit from operations	77,502,703	99,790,795	19,770,717	16,393,694	110,030,095	(13,950,224)	309,537,780
Financial income and expense, net	40,378,678	160,146	15,972	(8,199,467)	(33,439,115)	(2,638,817)	(3,722,603)
Income from associates	-	-	-	1,238,236	16,663,341	-	17,901,577
Profit from operations before taxes, translation gain and minority interest	117,881,381	99,950,941	19,786,689	9,432,463	93,254,321	(16,589,041)	323,716,754
Translation gain, net							19,398,369
Profit before taxes and minority interest							343,115,123
Taxation charge							
Current							(37,885,864)
Deferred							15,216,353
Net profit before minority interest							320,445,612
Minority interests	-	-	-	-	-	-	(48,003,139)
Net profit							272,442,473
Assets and Liabilities							
Segment assets	611,882,275	424,376,071	206,070,446	240,465,669	2,090,015,003	(48,308,601)	3,524,500,863
Investment in associates	-	-	-	5,679,682	-	-	5,679,682
Unallocated assets							576,995,856
Total assets	611,882,275	424,376,071	206,070,446	246,145,351	2,090,015,003	(48,308,601)	4,107,176,401
Segment liabilities	555,971,436	157,451,146	128,177,778	200,321,559	1,729,371,623	(390,513,805)	2,380,779,737
Unallocated liabilities							175,596,272
Total liabilities	555,971,436	157,451,146	128,177,778	200,321,559	1,729,371,623	(390,513,805)	2,556,376,009
Other Segment Information							
Capital expenditures							
Property, plant and equipment	62,699,309	86,044,524	18,750,447	4,344,318	2,654,730	-	174,493,328
Intangible fixed assets	56,750	-	-	556,421	-	-	613,171
Investment properties	-	-	-	102,958	-	-	102,958
Total capital expenditures	62,756,059	86,044,524	18,750,447	5,003,697	2,654,730	-	175,209,457
Depreciation expense	19,650,672	581,244	4,440,088	2,868,300	28,426,670	-	55,966,974
Amortisation	10,063	397,877	63,963	422,774	796,192	-	1,690,869
Fair value adjustments	-	35,491,423	1,365,689	(20,267)	-	-	36,836,845

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

3. SEGMENT INFORMATION (continued)

	2003						Consolidated
	Contracting	Rental	Retail	Trade and Manufacturing	Energy	Eliminations	
Revenues earned	581,735,946	77,466,160	178,375,000	203,637,682	-	-	1,041,214,788
Inter-segment revenues earned	36,950,053	-	-	3,305,027	-	(40,255,080)	-
Cost of revenues	(471,136,842)	(7,530,000)	(134,999,000)	(177,319,564)	-	-	(790,985,406)
Inter-segment cost of revenues	(35,481,825)	-	-	(2,055,018)	-	37,536,843	-
Gross profit	112,067,332	69,936,160	43,376,000	27,568,127	-	(2,718,237)	250,229,382
Selling and administrative expense	(45,513,108)	(11,944,129)	(30,230,241)	(26,171,909)	-	1,306,807	(112,552,580)
Other operating income and expense, net	18,610,644	(9,627,290)	4,429,353	(532,453)	-	(1,821,348)	11,058,906
Profit from operations	85,164,868	48,364,741	17,575,112	863,765	-	(3,232,778)	148,735,708
Financial income and expense, net	34,598,308	362,000	1,236,000	(4,678,196)	-	(1,657,500)	29,860,612
Income from associates	-	-	-	939,129	40,183,699	-	41,122,828
Profit from operations before taxes, minority interests, and net translation gain	119,763,176	48,726,741	18,811,112	(2,875,302)	40,183,699	(4,890,278)	219,719,148
Translation gain, net	-	-	-	-	-	-	9,199,801
Profit before taxes and minority interest							228,918,949
Taxation charge							
Current							(32,638,530)
Deferred							7,456,884
Net profit before minority interest							203,737,303
Minority interest							(10,887,409)
Net profit							192,849,894
Assets and Liabilities							
Segment assets	362,951,429	469,127,326	161,297,885	162,843,715	(16,327,623)	(11,836,198)	1,128,056,534
Investment in associates	72,764	-	-	4,098,421	285,084,846	-	289,256,031
Unallocated assets							444,831,156
Total assets	363,024,193	469,127,326	161,297,885	166,942,136	268,757,223	(11,836,198)	1,862,143,721
Segment liabilities	277,334,802	88,245,832	101,854,621	128,283,259	-	(6,945,920)	588,772,594
Unallocated liabilities							47,793,536
Total liabilities	277,334,802	88,245,832	101,854,621	128,283,259	-	(6,945,920)	636,566,130
Other Segment Information							
Capital expenditures							
Property, plant and equipment	43,909,980	19,548,098	13,904,779	2,417,295	-	-	79,780,152
Intangible fixed assets	-	3,633	-	36,235	-	-	39,868
Investment properties	-	-	-	136,878	-	-	136,878
Total capital expenditures	43,909,980	19,551,731	13,904,779	2,590,408	-	-	79,956,898
Depreciation expense	19,298,196	675,000	3,716,185	3,453,415	-	-	27,142,796
Amortisation	387,928	8,000	60,012	180,612	-	-	636,552
Fair value adjustments	-	5,695,934	(4,360,353)	188,494	-	-	1,524,075

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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3. SEGMENT INFORMATION (continued)

(b) Geographical Segments:

	Turkey	Commonwealth of Independent States	Europe	North Africa and Other	Eliminations	Consolidated
OTHER INFORMATION						
2004						
Net sales	1,054,880,169	595,455,509	177,168,478	49,961,745	-	1,877,465,901
Inter-segment sales	41,957,912	80,660,641	-	-	(122,618,553)	-
Segment assets	2,321,253,162	1,128,705,140	182,006,825	22,547,894	(130,012,158)	3,524,500,863
Capital expenditures	20,775,397	126,767,918	24,792,128	2,874,014	-	175,209,457
2003						
Net sales	348,840,157	435,668,784	232,243,822	24,462,025	-	1,041,214,788
Inter-segment sales	11,864,448	27,389,992	1,000,640	-	(40,255,080)	-
Segment assets	274,168,669	738,425,401	112,027,025	15,271,637	(11,836,198)	1,128,056,534
Capital expenditures	11,373,273	59,142,634	7,344,326	2,096,665	-	79,956,898

4. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	1,274,163	1,548,689
Cash in bank-Demand deposits	169,004,923	53,519,901
Cash in bank-Time deposits	171,760,523	159,831,818
Other	1,993,048	328,981
Total	344,032,657	215,229,389
Less: time deposits with maturity over three months	(65,700,000)	(31,000,000)
Cash and cash equivalents at consolidated cash flow statement	278,332,657	184,229,389

Interest rates of bank deposits are as follows:

	2004	2003
Time deposits with maturities less than three months		
U.S. Dollars		
- fixed interest rate	1.18%-3.00%	0.75%-3.50%
- variable interest rate	Libor + 5.8%	-
Russian Rouble	5.50%- 6.50%	5.00%
YTL	-	18.00%-25.00%
Time deposits with maturities over three months		
U.S. Dollars	3.00%-12.90%	3.00%-12.90%

As of December 31, 2004, time deposit with maturity over three months has the maximum maturity of September 3, 2009 (2003 - December 4, 2008) and they are blocked as collateral against the letters of guarantee and bank borrowings obtained for various projects and subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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5. INVESTMENTS AVAILABLE FOR SALE

The breakdown of current investments available for sale is as follows:

	2004		2003	
	Effective Interest Rate	Amount	Effective Interest Rate	Amount
Private sector bonds (international markets)	3.36%-9.62%	99,966,722	3.75% - 6.75%	138,523,675
Foreign government bonds (international markets)	4.20%-6.00%	82,651,050	4.00% - 5.38%	71,953,835
Equity securities (international markets)	-	13,068,797	-	12,552,991
(domestic market)	-	11,752,234		
Turkish Government Bonds (international markets)	6.50-9.50%	4,536,327	9.63%	2,761,288
(domestic market)	20.78%-21.79%	8,088,801	24.36%	211,343
Mutual Funds (international markets)	-	9,609,140	-	3,564,305
(domestic market)	-	-	-	34,330
		229,673,071		229,601,767

Maximum maturities of the investments available for sale are as follows:

	2004	2003
Private sector bonds (international markets)	January 4, 2030	January 4, 2030
Foreign government bonds (international markets)	February 15, 2031	February 15, 2031
Turkish Government Bonds (international markets)	February 10, 2014	November 30, 2006
(domestic market)	July 5, 2006	April 2, 2004

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

	2004		2003	
	Percentage of Ownership	Amount	Percentage of Ownership	Amount
Yapı ve Kredi Bankası A.Ş. (YKB)	less than 1	319,866	less than 1	238,928
Bursa Serbest Bölge Kurucu ve İşleticisi A.Ş.	1.00	150,000	1.00	150,000
Türk Sınai Kalkınma Bankası (TSKB)	less than 1	74,136	less than 1	57,213
Sınai Mali Yatırım Holding	less than 1	53,244	less than 1	53,244
Tohum Türkiye Otizm Erken Tanı ve Eğitim Vakfı (Tohum Vakfı)	16.65	50,000	16.65	50,000
T. İmar Bankası	-	-	less than 1	43,428
Susanbaş Değirmencilik A.Ş. (Susanbaş)*	-	-	99.35	6,004,985
Others		43,502		13,041
		690,748		6,610,839

(*) included in the scope of consolidation as of December 31, 2004.

All the investments whose fair value could be measured reliably are carried at fair value with unrealized gains or losses reflected in consolidated statement of income. For those investments whose fair value could not be measured reliably, they are continued to be carried at cost less a provision for diminution in value and restated to equivalent purchasing power as of December 31, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

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5. INVESTMENTS AVAILABLE FOR SALE (continued)

In 2003 and before, Susanbaş was classified in investment available for sale and at December 31, 2003, reflected at fair value based on the appraisal report of qualified experts. In 2004, the Company's view with respect to Susanbaş is changed and considering the increased operations in Susanbaş, as of December 31, 2004, it is fully consolidated in the financial statements. The Company's share in prior year earnings of Susanbaş amounting to U.S. Dollar 1,128,859 is included in the consolidated statement of income for the year ended December 31, 2004.

As of December 31, 2004 and 2003, fair value of TSKB and YKB, whose shares are traded at ISE, are determined by reference to ISE quoted market bid prices at the close of business at balance sheet dates.

The investments in the remaining companies are carried at cost since their fair value could not be measured reliably. Those investments do not have quoted market prices and other methods of reasonably estimating fair value are inappropriate and unworkable.

6. ACCOUNTS RECEIVABLE

Trade receivables which are withheld by the customers until the contracts are completed or, in certain instances for even longer periods, are classified as retention receivables.

The breakdown of short-term accounts receivable is as follows:

	2004	2003
Trade receivables	250,551,742	58,699,480
Notes and cheques receivables	68,526,798	41,772,263
Contract receivables	41,454,207	57,699,799
Retention receivables	621,988	899,253
Other receivables	15,447,552	7,724,452
	376,602,287	166,795,247
Less : Allowance for doubtful receivables	(23,532,547)	(20,870,573)
	353,069,740	145,924,674

Movement of allowance for doubtful receivables is as follows:

	2004	2003
Balance at beginning of year	20,870,573	20,812,045
Additional provision	3,542,236	116,591
Restatement and foreign currency translation effect	268,954	1,254,758
Write-offs	(814,339)	(362,232)
Collection from doubtful receivables	(334,877)	(950,589)
Balance at the end of year	23,532,547	20,870,573

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Currency -- U.S. Dollars unless otherwise indicated)

6. ACCOUNTS RECEIVABLE (continued)

The breakdown of long-term accounts receivable is as follows:

	2004	2003
Notes and cheques receivables	29,241,522	25,428,494
Trade receivables	1,173	15,533,335
Accrued receivables from Iraq	115,116,085	115,116,085
Allowance for accrued receivables for Iraq losses	(83,252,730)	(83,252,730)
Money received from UNCC by Eximbank	(31,863,355)	(31,863,355)
	29,242,695	40,961,829

As of December 31, 2004, total collaterals and letter of guarantees taken for accounts receivable amounted to U.S. Dollars 22,380,130 (2003 - U.S. Dollars 15,280,006). Furthermore, mortgages taken amounted to U.S. Dollars 6,207,723 (2003 - U.S. Dollars 5,949,526).

Accrued receivables for Iraq losses

The Company's operations in Iraq ceased since August 6, 1990, due to invasion of Kuwait by Iraq forces. The Turkish Government provided long-term loan facilities through Turkish Eximbank (Eximbank) to companies, which suffered losses resulting from the invasion. Accordingly, the loans from various banks amounting to U.S. Dollars 80,699,079 and German Marks 4,382,267 (Euro 2,240,618) were transferred to Eximbank and, additionally, for the loans amounting to U.S. Dollars 30,159,644 provided by various other banks, Eximbank provided letters of guarantee for the same amount to the related banks.

The Company had accrued for Iraq receivables in its financial statements at an amount of U.S. Dollars 115,116,085 on a conservative basis keeping the total amount at the level of cash facilities provided by Eximbank. As a result of the claim filed to the United Nations Compensation Commission (UNCC) to compensate for its losses, the Company was entitled to receive compensation at the amount of U.S. Dollars 62,022,999 that was received by Eximbank. Accordingly, Eximbank closed the loans amounting to U.S. Dollars 30,159,644 secured by itself using the transferred amounts. The remaining amount of the compensation received is still kept in Eximbank against the bank borrowings provided to the Company.

As of December 31, 2004, the money received by Eximbank, after the closing down of the above mentioned secured loans, at an amount U.S. Dollars 31,863,355 (2003 - U.S. Dollars 31,863,355) was netted off from the receivable balance as well as the long term bank borrowings in the consolidated balance sheet. Also, the Company provided full provision for the receivable amount which was not compensated by UNCC at the amount of U.S. Dollars 53,093,086. The provision for Iraq losses are provided at an amount of U.S. Dollars 20,293,191, U.S. Dollars 15,000,000, U.S. Dollars 15,847,595, U.S. Dollars 1,952,300 within the years 2002, 2001, 2000 and before 2000, respectively.

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7. INVENTORIES

	2004	2003
Raw materials and spare parts	14,807,757	10,368,855
Work in progress	1,801,116	5,312,544
Finished goods	8,098,091	7,163,184
Merchandise and goods for resale (machinery and others)	53,419,588	30,303,921
Construction materials	7,998,672	384,544
Goods in transit and advances for inventory purchases	9,589,265	1,869,359
	95,714,489	55,402,407
Less: Allowance for slow moving inventory and net realizable value	(844,164)	(847,443)
	94,870,325	54,554,964

As of December 31, 2004, U.S. Dollars 16,425,000 (2003 - U.S. Dollars 13,230,000) of the inventories are pledged as security for the IFC loan.

8. OTHER CURRENT AND NON-CURRENT ASSETS

The breakdown of other current assets is as follows:

	2004	2003
Natural gas purchase commitment accrual	76,990,852	-
V.A.T. receivables	40,663,783	16,518,629
Prepaid tax	11,302,198	1,591,270
Prepaid expenses	7,699,205	4,240,571
Advances given	5,957,603	991,006
Deferred and other VAT	4,710,866	5,835,231
Income accruals	2,600,615	4,516,216
Job advances	1,027,025	844,822
Miscellaneous	2,536,091	1,431,375
	153,488,238	35,969,120

The breakdown of other non-current assets is as follows:

	2004	2003
Spare parts	21,555,113	-
Prepayment for land leases	20,281,624	18,644,755
Deposits and guarantees given	10,221,755	239,697
Prepaid expense	5,662,569	2,406,101
Restricted cash (*)	3,810,000	-
Prepaid taxes and funds	17,776	8,665,372
Miscellaneous	6,986,472	2,366,056
	68,535,309	32,321,981

(*) The balance is related with cash held by the Company as blocked deposit in banks for maintenance purposes for the Steam turbines of the Power Companies. The maintenance is planned once in 6 years.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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9. INTEREST IN JOINT VENTURES

The Company's share in the assets and liabilities of the joint ventures using the proportionate consolidation method is as follows :

Balance Sheet	2004			2003		
	Joint Ventures Followed Up On Aggregate Basis	Joint Venture Followed Up On line By Line Basis	Total	Joint Ventures Followed Up On Aggregate Basis	Joint Venture Followed Up On Line By Line Basis	Total
Cash and cash equivalents	14,711,417	12,065,000	26,776,417	22,942,266	11,346,000	34,288,266
Portfolio available for sale	-	101,000	101,000	-	-	-
Accounts receivable	75,221,317	5,312,000	80,533,317	57,935,504	4,042,000	61,977,504
Inventories	1,910,200	16,425,000	18,335,200	-	13,230,000	13,230,000
Other current assets	17,435,678	14,738,000	32,173,678	24,991,123	11,400,000	36,391,123
Costs and estimated earnings in excess of billings on uncompleted contracts	10,786,743	-	10,786,743	15,389,442	-	15,389,442
Company's Share in Joint Venture's Current Assets	120,065,355	48,641,000	168,706,355	121,258,335	40,018,000	161,276,335
Investment property	-	73,877,334	73,877,334	-	67,901,339	67,901,339
Other non-current assets	28,758	14,883,000	14,911,758	13,435	8,871,000	8,884,435
Company's Share in Joint Venture's Non-Current Assets	28,758	88,760,334	88,789,092	13,435	76,772,339	76,785,774
Cost	75,849,475	96,533,728	172,383,203	74,589,257	74,011,296	148,600,553
Accumulated depreciation	(26,538,749)	(15,832,000)	(42,370,749)	(38,650,378)	(11,052,329)	(49,702,707)
Company's Share in Joint Venture's Property Plant and Equipment	49,310,726	80,701,728	130,012,454	35,938,879	62,958,967	98,897,846
Current portion of long-term borrowings	-	11,038,000	11,038,000	-	7,848,000	7,848,000
Accounts payable	37,530,823	39,824,000	77,354,823	46,173,797	30,428,000	76,601,797
Other current liabilities and accrued expenses	15,388,920	5,074,000	20,462,920	13,393,275	4,945,000	18,338,275
Taxation on income	2,995,536	-	2,995,536	276,756	-	276,756
Billings in excess of costs and estimated earnings on uncompleted contracts	10,952,375	-	10,952,375	6,775,764	-	6,775,764
Company's Share in Joint Venture's Current Liabilities	66,867,654	55,936,000	122,803,654	66,619,592	43,221,000	109,840,592
Long-term borrowings	-	57,900,000	57,900,000	-	46,790,000	46,790,000
Advances payable	36,312,975	-	36,312,975	9,602,494	-	9,602,494
Deferred tax liabilities	(366,817)	18,394,779	18,027,962	1,049,875	16,571,541	17,621,416
Company's Share in Joint Venture's Non-Current Liabilities	35,946,158	76,294,779	112,240,937	10,652,369	63,361,541	74,013,910

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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9. INTEREST IN JOINT VENTURES (continued)

The Company's share in the profit/loss of the joint ventures using the proportionate consolidation method on a line by line basis is as follows:

	2004	2003
Revenues	515,329,179	492,612,316
Cost of revenues	(395,894,005)	(376,032,146)
Selling and administrative expense	(46,782,210)	(39,053,502)
Other operating income and expense	257,707	(3,843,430)
Financial income and expense	5,565,207	10,200,607
Taxation charge	(10,852,038)	(7,074,355)
Translation gain	3,271,552	4,131,709
Net profit	70,895,392	80,941,199

10. COSTS AND BILLINGS ON UNCOMPLETED CONTRACTS

	2004	2003
Costs incurred on uncompleted contracts	229,284,451	170,275,485
Estimated earnings	68,176,685	49,716,702
	297,461,136	219,992,187
Less: Billings to date	(295,518,441)	(221,425,398)
	1,942,695	(1,433,211)

The net balance is included in the consolidated balance sheets under the following captions:

	2004	2003
Costs and estimated earnings in excess of billings on uncompleted contracts	11,588,982	6,393,955
Billings in excess of costs and estimated earnings on uncompleted contracts	(9,646,287)	(7,827,166)
	1,942,695	(1,433,211)

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11. INVESTMENTS IN ASSOCIATES

	2004		2003	
	Percentage of Ownership	Amount	Percentage of Ownership	Amount
<i>accounted for using the equity method</i>				
Power Companies (*)	-	-	49.00	284,625,467
Wall Şehir	40.00	4,712,310	40.00	3,718,199
Other associates		967,372		912,365
Total		5,679,682		289,256,031

(*) including Power Companies as of December 31, 2003; included in the consolidation as of December 31, 2004.

In accordance with the equity funding and agreements signed in 2000 between the Power Companies and the financial institutions which have provided the related funds for these companies, the parties are agreed on the equity contribution that will be made by the shareholders which is approximately 25% of the total construction cost. Accordingly, the Company has placed a deposit to the Hollandische Bank-Unie N.V. to finance the construction cost not funded by the financial institutions as a guarantee for the loan obtained by the above mentioned Power Companies.

The breakdown of the investment cost in the Power Companies is as follows:

	2004		2003	
	Percentage of Ownership	Amount	Percentage of Ownership	Amount
Gebze Elektrik	-	-	49.00	42,172,207
İzmir Elektrik	-	-	49.00	40,736,216
Adapazarı Elektrik	-	-	49.00	18,378,118
				101,286,541
Time deposits held for equity commitments	-	-		183,338,926
Total investment in Power Companies	-	-		284,625,467

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12. BUSINESS COMBINATION

Acquisition of Power Companies

On June 24, 2004 Enka İnşaat has purchased 25.00% shares of Power Companies, thus the share percentages increased to 74.00%. As of June 30, 2004, all balance sheet items of Power Companies have been fully consolidated whereas since the participation percentage was 49.00% up to June 30, 2004, interest of Enka İnşaat in Power Companies amounting to U.S. Dollar 16,663,341 derived from 49.00% participation has been recorded in income from associates line of consolidated statement of income. As of December 28, 2004, the Company has purchased 16.00% additional shares of these Power Companies, thus the percentages increased to 90.00%.

The fair values of the net assets acquired were lower than the purchase price by USD 55,151,210 and have been recorded as positive goodwill in the consolidated balance sheet as of December 31, 2004. Positive goodwill arising from the acquisition of Power Companies is being amortised over 20 years. As of December 31, 2004, the Company has amortised this positive goodwill at the amount of USD 1,176,748 as expense and the negative goodwill caused due to the 9.00% share purchase as of December 31, 2003 at an amount of USD 16,327,623 was amortised at an amount of USD 466,503 as income as of December 31, 2004. Negative goodwill arising from the 9.00% acquisition of Power Companies is amortized over 35 years.

As of June 30, 2004 and December 31, 2004, the fair value of the identifiable assets and liabilities of Power Companies acquired with 25% and 16% were respectively:

	June 30,2004	December 31,2004
Cash and cash equivalents	98,071,813	96,334,420
Accounts receivable	208,023,200	191,978,779
Other current assets	11,785,031	88,809,040
Property, plant and equipment-net	1,620,546,107	1,593,984,088
Deferred tax asset	135,503,189	153,950,129
Other non-current assets	104,428,711	98,606,204
Current portion of long-term borrowings	(277,484,793)	(232,179,919)
Accounts payable	(195,535,963)	(132,110,755)
Other current liabilities and accrued expenses	(8,369,548)	(82,032,012)
Other non-current liabilities and accrued expenses	(247,742,457)	(324,971,347)
Taxation on income	(26,110,387)	(25,642,894)
Long-term borrowings	(1,185,693,519)	(1,107,095,180)
Fair value of net assets of Power Companies	237,421,384	319,630,553
Company's share in the Net Assets of Power Companies	59,355,346	51,140,888
Positive Goodwill – Note 21	47,069,892	8,081,318
Total purchase consideration	106,425,238	59,222,206
Cash paid	106,425,238	59,222,206
Cost associated with the acquisition	-	-
Total purchase consideration	106,425,238	59,222,206

The cash outflow on acquisition is as follows:

	June 30, 2004	December 31, 2004
Net cash acquired with subsidiary	98,071,813	96,334,420
Cash paid	(106,425,238)	(59,222,206)
Net cash outflow	(8,353,425)	37,112,214

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13. PROPERTY, PLANT AND EQUIPMENT

	Land and Land Improvements	Buildings and Barracks	Machinery and Equipment	Motor Vehicles	Furniture and Fixtures	Scaffolding and Formworks	Others	Construction in Progress	Leased Assets	Total
COST										
At January 1, 2004	10,128,892	204,112,001	158,814,285	11,912,380	37,919,598	4,175,917	6,367,425	27,991,287	9,075,602	470,497,387
Acquisition through subsidiary acquired, net	41,004,475	191,379,908	1,479,875,325	589,660	2,942,625	-	2,477	-	-	1,715,794,470
Exchange and remeasurement adjustment	370,390	21,930,133	12,340,398	578,928	1,758,696	-	225,415	1,421,658	-	38,625,618
Additions (*)	153,662	7,836,179	18,935,643	1,296,589	5,837,403	1,849,521	2,978,470	93,789,264	578,115	133,254,846
Disposals (*)	-	(4,638,782)	(24,171,396)	(1,836,079)	(4,283,788)	(1,570,235)	(160,562)	(154,672)	-	(36,815,514)
Transfers to investment property	-	-	-	-	-	-	-	(40,697,353)	-	(40,697,353)
Transfers from construction in progress	51,027	2,780,205	166,000	-	-	-	-	(2,997,232)	-	-
At December 31, 2004	51,708,446	423,399,644	1,645,960,255	12,541,478	44,174,534	4,455,203	9,413,225	79,352,952	9,653,717	2,280,659,454
ACCUMULATED DEPRECIATION										
At January 1, 2004	2,195,254	119,619,145	131,427,807	9,288,279	27,900,575	3,777,379	4,575,313	-	3,965,203	302,748,955
Accumulated depreciation of acquired subsidiary	2,876,008	8,920,049	68,304,810	131,490	595,148	-	-	-	-	80,827,505
Exchange and remeasurement adjustment	269,763	17,733,792	11,265,058	424,082	1,125,048	-	112,721	-	-	30,930,464
Charge for the year (*)	1,439,803	4,983,048	34,280,898	935,107	3,587,393	836,402	487,129	-	864,761	47,414,541
Disposals (*)	-	(2,728,267)	(23,449,195)	(1,471,143)	(3,550,221)	(3,519,017)	(153,422)	-	-	(34,871,265)
At December 31, 2004	6,780,828	148,527,767	221,829,378	9,307,815	29,657,943	1,094,764	5,021,741	-	4,829,964	427,050,200
NBV at January 1, 2004	7,933,638	84,492,856	27,386,478	2,624,101	10,019,023	398,538	1,792,112	27,991,287	5,110,399	167,748,432
NBV at December 31, 2004	44,927,618	274,871,877	1,424,130,877	3,233,663	14,516,591	3,360,439	4,391,484	79,352,952	4,823,752	1,853,609,253

(*) Within the balances of additions to cost, disposals from cost, depreciation charge for the year and disposal from depreciation amounts, U.S. Dollars 2,654,730, 1,358,434, 28,426,670, 252,162 represent the addition amounts from the Power Companies for the last six months of the year respectively, since the Power Companies were fully consolidated as of June 30, 2004.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

Market Valuations

The Company's lands and buildings have been revalued as a result of appraisal studies carried out in 2003 by an international appraisal firm to the extent of a total amount at U.S. Dollars 24,059,674. The revaluation surplus is included within equity netted off with the related deferred tax and depreciation effects at a total amount of U.S. Dollars 10,075,657 (2003 - U.S. Dollars 9,378,832). Such revaluation surplus is not available for distribution.

When assets are sold or otherwise disposed of, the costs and the related accumulated depreciation are removed from the accounts and resulting gain or loss is reflected in the net income. Upon the disposal of the revalued asset, the relevant portion of the revaluation surplus realized in respect of previous valuation is released from the revaluation surplus directly to retained earnings. Further, the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is realized from the revaluation surplus to retained earnings on annual basis as the asset is used by the Company.

Construction in Progress

As of December 31, 2004, construction in progress account mainly represents activities in Moscow; for a construction of a hotel complex at a cost of U.S. Dollars 51,873,562, which is commenced in April 2003 and expected to be completed in 2005 with an estimated cost of USD 91,000,000 excluding VAT; new hyperstores of Ramenka at a total cost of U.S. Dollars 11,339,269 and a new business center at a total cost of U.S. Dollars 13,389,487. Upon completion, these constructions in progress will be transferred mainly to investment property.

Leased Assets

Leased assets include mainly an airplane and they are all pledged as securities for the related finance lease obligations.

Pledge on Property Plant and Equipment

Under the terms of the loan agreement signed with the International Finance Corporation (IFC) the property, plant and equipment with a net book value of U.S. Dollars 80,701,729 (2003 - U.S. Dollars 62,958,967) are pledged for security. Also the Company has collateralized the plant facilities with an amount of U.S. Dollars 3,340,018 (2003 - U.S. Dollars 5,464,330) as guarantee to Ministry of Finance for the possible penalty charges.

Under the terms of the loan agreements signed by the Power Companies, the property, plant and equipment of those companies are pledged for security at the amount of U.S. Dollars 3,410,451,997.

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(Currency -- U.S. Dollars unless otherwise indicated)

14. INTANGIBLE ASSETS

	Land Lease Rights	Others	Total
At January 1, 2004, net of accumulated amortisation	16,081,428	978,442	17,059,870
Acquisition through subsidiary acquired, net	-	856,183	856,183
Exchange and remeasurement adjustment	-	62,854	62,854
Additions	-	613,171	613,171
Disposals	-	(3,582)	(3,582)
Amortisation charge for the year	(397,878)	(582,747)	(980,625)
At December 31, 2004, net of accumulated amortisation	15,683,550	1,924,321	17,607,871
At December 31, 2003			
Cost	19,434,984	1,930,924	21,365,908
Accumulated amortisation	(3,353,556)	(952,482)	(4,306,038)
Net carrying amount	16,081,428	978,442	17,059,870
At December 31, 2004			
Cost	19,434,984	3,541,403	22,976,387
Accumulated amortisation	(3,751,434)	(1,617,082)	(5,368,516)
Net carrying amount	15,683,550	1,924,321	17,607,871

Land lease rights mainly represents the rights to use 4 land plots in the city of Moscow for the purpose of constructing buildings, for a period of 49 years. These rights are amortised over a 49 year period.

The intangible assets of the Company at the amount of U.S. Dollars 39,000 (2003 - U.S. Dollars 97,000) are pledged as security for IFC loan (see Note 17). No indication of impairment of the intangible assets exists as of the balance sheet date.

15. INVESTMENT PROPERTIES

The movement of investment properties is as follows :

	2004
At January 1,	475,710,497
Change in the scope of consolidation	1,647,571
Exchange and remeasurement adjustment	17,006,051
Transfers from property, plant and equipment and construction in progress	40,697,353
Additions	102,958
Disposals	(865,610)
Change in fair value, net	36,836,845
At December 31,	571,135,665

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- U.S. Dollars unless otherwise indicated)

15. INVESTMENT PROPERTIES (continued)

Investment properties include mainly (a) real estate properties in Russia which are leased to tenants (b) buildings in Turkey which are either rented to related parties or held for capital appreciation and (c) a land in Turkey which is kept for investment purposes.

The investment properties owned by MKH, located in central Moscow, Russia on land are leased from the Moscow City Authorities under a 49 year operating lease which is renewable at the option of MKH. The property was last valued on December 31, 2004 at fair value by an independent professionally qualified valuer and the fair value has been set as U.S. Dollars 199,396,000 (2003- U.S. Dollars 188,776,000). The basis used for the appraisal was the income capitalization approach. The land hold under operating lease which has been excluded from the valuation of the property as of December 31, 2003, is classified and accounted as investment property as of December 31, 2004.

Bank borrowings of MKH are secured by investment property with a value of U.S. Dollars 50,000,000 (2003 - U.S. Dollars 50,000,000).

The fair values of the investments in leased properties of Mosenka amounting at a total of U.S. Dollars 81,033,000 (2003 - U.S. Dollars 61,731,000) have been determined based on valuations performed by independent professionally qualified valuers on the basis of market value, supported by market evidence, in accordance with International Valuation Standards.

Part of the premises owned by Ramenka and leased to tenants on a continuing basis are treated as an investment property. The fair value of investment properties as of December 31, 2004 based on an independent appraiser's report is U.S. Dollars 73,877,334. It was evaluated using a combination of income, market and cost approaches. As comparable sales of property, plant and equipment are infrequent, the valuation is supported by marketing evidence to the extent that market rental rates were used in the income approach. The valuation was also based on other factors such as proposed transactions on the market. The valuation includes land that is under operating lease by Ramenka as it cannot be separated from the valuation of investment property. As of December 31, 2003, the fair value of the investment property has been estimated as U.S. Dollars 67,901,339 using the same method. The investment property of Ramenka is shown as a security for the IFC loan.

The fair values of the investment properties in Russia at a total amount of U.S. Dollars 165,200,000 (2003 - U.S. Dollars 150,789,000) which are used as business centers and apartment complexes as well as the remaining investment properties owned by Enka İnşaat are determined based on the valuations performed by independent, professionally qualified valuers on the basis of the calculations, considerations and other information obtained in the course of market research.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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16. BORROWINGS

	2004			
	Interest Rate	Original Currency		U.S. Dollar Equivalent
Short-term				
Short-term bank borrowings	3.80%-5.09%	EUR	13,086,380	17,812,534
	19.00%-26.50%	TL	17,565,456	13,088,038
	3.25%-6.15%	USD	7,249,310	7,249,310
	0.01%-0.08%	JPY	713,041,400	6,872,688
	11.00%	DA	40,000,000	500,000
Obligations under finance leases	1.27%	EUR	288,608	392,838
	3.81%	USD	5,699	5,699
Total short-term borrowings				45,921,107
Long-term				
Eximbank loans	Libor+0.1%-4.26%	USD	732,488,316	732,488,316
OPIC loan	7.54% - 7.90%	USD	254,048,956	254,048,956
Hermes loan	Libor+0.625%	USD	102,163,591	102,163,591
Iraq related Eximbank loans		USD	80,699,079	80,699,079
		EUR	2,240,618	3,049,817
OND loan	Libor+ 0.7%	USD	78,646,589	78,646,589
IFC Loan	Libor + (2.35%-5.83%)	USD	48,937,983	48,937,983
ABN Amro loan	Libor + 5.8%	USD	40,000,019	40,000,019
Commercial loan	Libor+ 4%	USD	39,353,971	39,353,971
Hermes loan	2.67% - 3.65%	EUR	23,672,856	32,222,318
HBU Facility loan(Subordinated Loans)	Libor+4.25%	USD	13,461,834	13,461,834
Other long-term bank borrowings	3% - 13%	USD	95,863,952	95,863,952
	Euribor + (2.25%-4.48%)	EUR	50,440,596	68,657,239
	0.01% - 0.08%	JPY	615,664,700	5,934,321
Obligations under finance leases	3.81%	USD	3,505,128	3,505,128
	1.27%	EUR	107,092	145,768
				1,599,178,881
Less: Current portion of long-term bank borrowings and financial lease obligations				(233,020,312)
Less: Money received from UNCC by Eximbank				(31,863,355)
Upfront fee paid (*)				(71,519,581)
Total long-term borrowings				1,262,775,633

(*) Upfront fee paid represents the external, direct costs incurred to obtain project financing related to the loans of the Power Companies. These amounts are not presented in the repayment summary of the borrowings, since the amounts are prepaid before the commercial operation date of the Power Companies.

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Currency -- U.S. Dollars unless otherwise indicated)

16. BORROWINGS (continued)

		2003		
	Interest Rate	Original Currency		U.S. Dollar Equivalent
Short-term				
Short-term bank borrowings	26.00 % - 53.00%	TL	10,269,629	7,357,337
	4.54% - 7.00%	EURO	3,990,371	4,987,964
	3.50% - 5.40%	USD	3,529,554	3,529,554
Total short-term borrowings				15,874,855
Long-term				
Iraq related Eximbank loans		USD	80,699,079	80,699,079
		EURO	2,240,618	2,801,218
IFC Loan	Libor+(2.35%- 5.83%)	USD	54,638,000	54,638,000
Other long-term bank borrowings	1.12% -13.00%	USD	60,593,919	60,593,919
	2.58% - 6.40%	EURO	42,565,249	53,206,561
	0.50%- 4.00%	JPY	1,745,419,658	16,288,341
Obligations under financial lease	3.81%	USD	3,848,840	3,848,840
	1.27%	EURO	643,788	804,735
				272,880,693
Less: Current portion of long-term bank borrowings and financial lease obligations				(44,524,768)
Less: Money received from UNCC by Eximbank (also see Note 6)				(31,863,355)
Total long-term borrowings				196,492,570

IFC Loan

Ramenka signed five loan agreements with IFC which are utilised for the construction and development of hyperstores and supermarkets in Moscow. Loan agreements contain covenants on adequacy of free cash flow, liquidity and gearing ratios. In year 2004 and 2003, the Company complied with all covenants. Under the terms of the loan agreement, the loans are secured by the entire amount of the Ramenka's assets. In addition, the shares of the Company in Ramenka with nominal value of RR 155,286,560 has been pledged based on the amendment of IFC loan agreement conditions. All IFC loans are repayable in equal installments every six months and libor is fixed every six months.

Iraq Related Eximbank Loans

Iraq related loans are secured by Eximbank. Iraq progress billings amounting to U.S. Dollars 55,230,457, treasury bills amounting to U.S. Dollars 1,611,437, machinery and equipment amounting to U.S. Dollars 101,587,253 that were left at Iraq jobsites, were assigned to Eximbank. As further explained in Note 6, a portion of the money received from UNCC at an amount of U.S. Dollars 31,863,355 (2003 - U.S. Dollars 31,863,355) is kept by Eximbank for the loans provided. Such amounts are netted off from the above-mentioned borrowing balance. There is not any repayment plan between the Company and Eximbank for the remaining balance and the Company has not accrued any interest for these borrowings. Management's expectation is that those interests will not be collected from the Company and this issue will ultimately be resolved among Eximbank and the Turkish Undersecretariat of Treasury.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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16. BORROWINGS (continued)

Hermes Loans

The Hermes loan of the consolidated subsidiary Enka Pazarlama (in Euro) has an interest rate varying between 2.67% and 3.65%.

POWER COMPANIES' BANK LOANS

The bank borrowings of Power Companies are granted under project financing and the only liability of Enka İnşaat as a sponsor is to issue a letter of credit to support Power Company's Debt Service Reserve with the maximum amount of 6 months senior debt service amount. The letter of credit can only be called to meet senior debt service to the extent senior debt service is not met from operating cash flow.

As of December 31, 2004, the bank borrowing of Power Companies was secured with bank deposit with an amount of U.S Dollars 24,018,755.

Eximbank Loans

A syndicate of commercial banks named as Eximbank Facility Lenders provides the funding. The interest is currently payable to the lender in 6 months' period and the applicable rate is determined as the 6-month LIBOR Rate plus 0.1% for Gebze Elektrik and İzmir Elektrik. Adapazarı Elektrik Exim loan bears 4.26% fixed rate for the full life of the loan. Interest is paid semi-annually.

OPIC Loans

The OPIC loans are funded with the issue of Government backed certificates in the US Capital Markets and have a 12-year term of principal repayment in 24 semi-annual installments commencing on May 15, 2003 for Adapazarı and Gebze Elektrik, on October 15 2003 for İzmir Elektrik. In December 2002, the variable interest rates (3 months US Treasury bill rate plus a maximum of 4.25% and minimum of 3.80%) were converted to a fixed rate of 7.54%, 7.85% and 7.90% for İzmir Elektrik, Gebze Elektrik and Adapazarı Elektrik, respectively.

Hermes Loans

The Hermes Loans are guaranteed by the Export Credit Agencies of the German Government and have a 12-year term of principal repayment in 24 semi-annual installments commencing on May 15, 2003 for Adapazarı and Gebze Elektrik, on October 15, 2003 for İzmir Elektrik. Interest is paid semi-annually at a rate of 6-month LIBOR plus a margin of 0.625%.

OND Loans

The OND Loans are guaranteed by the Export Credit Agencies of the Belgian Government and have a 12-year term of principal repayment in 24 semi-annual installments commencing on May 15, 2003 for Adapazarı and Gebze Elektrik, on October 15, 2003 for İzmir Elektrik. A syndicate of commercial banks provides the funding. The interest is paid semi-annually at a rate of 6-month LIBOR plus a margin of 0.7%.

Commercial Facilities

The commercial loans have a 5-year term of principal repayment in 10 semi-annual installments commencing on the first principal date, which will occur as the construction is completed and are provided by a syndicate of commercial banks. The debts incur interest at 6-month LIBOR plus 4% margin.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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16. BORROWINGS (continued)

HBU Facility (Subordinated Loans)

The Company has secured commercial loans with HBU (Amsterdam) to finance construction costs not funded by senior debt. This is approximately 25% of the total construction costs. Interest on the principal is paid in periods up to 12 months which is elected by the Company at each draw down. The interest rate applicable is calculated as the LIBOR Rate valid for the relevant period plus 4.25%.

Other Long Term Bank Borrowings

As of December 31, 2004, U.S Dollars 65,000,000 (2003- U.S. Dollars 30,000,000) of the long-term bank borrowings are secured with the bank deposit at the same amount.

On 5 November 2003, the consolidated subsidiary MKH obtained a loan at the amount of U.S Dollars 45,000,000 for the financing of the construction of a hotel complex with final repayment on 5 December 2011. As at 31 December 2004, the Company has draw down U.S. Dollars 41,500,000 (2003 - U.S. Dollars 20,500,000) of the loan in accordance with the drawdown schedule. As of December 31, 2004, these long-term bank borrowings are secured by the pledge of rental revenues, investment property to the value of U.S Dollars 50,000,000 (2003 - U.S. Dollars 50,000,000) and leasehold rights on land.

Repayment schedule of long-term bank borrowings and finance lease obligations excluding Iraq related Eximbank loans is as follows:

Years	2004	2003
	Amount	
2004	-	44,524,768
2005	233,020,312	35,871,378
2006	208,908,912	27,245,442
2007	226,794,289	45,478,453
2008	224,487,439	23,819,279
2009	173,849,323	5,259,123
2010	156,621,044	5,075,350
2011	118,420,130	1,404,269
2012	73,449,112	463,824
2013	56,789,185	238,510
2014	39,479,847	-
2015	3,610,392	-
Less : Current portion of long term borrowings	(233,020,312)	(44,524,768)
Total long term borrowings	1,282,409,673	144,855,628

17. ACCOUNTS PAYABLE

The breakdown of current accounts payable is as follows :

	2004	2003
Trade payables	203,902,431	80,664,136
Advances payable	37,193,235	34,501,576
Notes payable	7,561,957	860,711
Other payables	6,619,491	1,652,794
	255,277,114	117,679,217

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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17. ACCOUNTS PAYABLE (continued)

The breakdown of non-current accounts payable is as follows :

	2004	2003
Trade payables	6,223,646	346,484
Advances payable	222,136	735,507
	6,445,782	1,081,991

18. OTHER CURRENT AND NON-CURRENT LIABILITIES AND ACCRUED EXPENSES

The breakdown of other current liabilities and accrued expenses is as follows:

	2004	2003
Provision for natural gas purchase commitment	76,990,852	-
Deferred revenue	20,346,659	17,525,611
VAT payable	12,486,412	8,756,258
Payroll payable	9,222,697	4,143,704
Taxes and funds payable	6,093,480	7,257,744
Accrued expenses	5,409,288	-
Deposit taken	1,166,170	1,356,006
Provision for legal cases	857,158	-
Operating lease payable	-	1,250,000
Other liabilities	1,681,818	1,488,059
	134,254,534	41,777,382

The breakdown of other non-current liabilities and accrued expenses is as follows :

	2004	2003
Deferred revenue	324,175,753	-
Other	106,501	-
	324,282,254	-

19. TAXATION ON INCOME

Enka İnşaat and its consolidated subsidiaries are subject to taxation in accordance with the tax procedures and the legislation effective in the countries in which they operate.

Tax Legislation in Turkey

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

Enka İnşaat ve Sanayi Anonim Şirketi and Its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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19. TAXATION ON INCOME (continued)

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

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

Effective from April 24, 2003, investment allowances provides a deduction from the corporate tax base of 40% of the purchase price of purchases of the brand-new fixed assets having economic useful life and exceeding YTL 6,000 and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at companies' will. All investment allowances can be carried forward indefinitely.

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

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

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

Tax Legislations in Other Countries

As of December 31, 2004 and 2003, effective corporation tax rate in other countries are as follows:

	2004	2003
Russia	24%	24%
Crotia	20%	20%
Holland	34.5%	34.5%
Kazakhstan	30% - 37%	30% - 37%
Nepal	25%	-
African Countries	15% - 40%	15% - 40%
Germany	25%	25%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

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19. TAXATION ON INCOME (continued)

As of December 31, 2004 and 2003, the total taxation charge applicable to income is different than the amount computed by applying the statutory tax rate to income before taxes as shown in the following reconciliation:

	2004		2003	
	Amount		Amount	
Tax per statutory tax rate	111,744,037	33%	68,675,685	30%
Effect of lower tax rates in foreign jobsites and in subsidiaries	(59,160,577)	(17%)	(7,641,660)	(3%)
Effect of investment incentive	(2,778,532)	(1%)	-	-
Effect of equity pick up revenue	(5,907,521)	(2%)	(12,336,848)	(5%)
Jobsites exempt from income tax	(5,535,328)	(2%)	(5,810,668)	(3%)
Permanent differences	(2,012,820)	(0.0%)	5,456,494	2%
Adjustments effect on jobsites subject to completed contract taxation method	-	-	(9,143,930)	(4%)
Effect of tax rate change and others	(13,679,748)	(4%)	(14,017,427)	(6%)
Taxation charge	22,669,511	7%	25,181,646	11%

The breakdown of temporary differences which give rise to deferred taxes is as follows :

	2004	2003
Deferred income tax liabilities		
Remeasurement and revaluation of property, plant and equipment, intangible assets and investment property	(115,643,205)	(102,602,730)
Adjustment for percentage of completion method application on construction projects	(16,178,710)	(15,705,375)
Adjustment to construction projects subject to Double Tax Treaties	-	(750,233)
Income accrual adjustments	(766,991)	(569,100)
Utilization of investment incentives	-	(465,181)
Deferred financial expenses	(453,318)	(421,515)
Adjustment of revenue levelization	(4,175,783)	-
Others	(1,907,693)	(1,176,329)
Gross deferred income tax liabilities	(139,125,700)	(121,690,463)
Translation of property, plant and equipment, intangible assets and investment property	67,405,320	1,534,992
Reserve for employee termination benefit	2,224,172	1,129,627
Allowance for doubtful receivables	983,056	757,971
Remeasurement of inventories	604,839	184,555
Tax loss carry-forward	4,674,989	-
Investment incentive	19,573,881	-
Adjustment of revenue levelization	68,362,582	-
Financial expense accrual adjustments	1,218,851	-
Lease obligation	161,582	-
Others	1,224,712	310,202
Gross deferred income tax assets	166,433,984	3,917,347
Net deferred tax asset (liability)	27,308,284	(117,773,116)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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19. TAXATION ON INCOME (continued)

Movement of net deferred tax asset (liability) can be presented as follows:

	2004	2003
Balance at January 1, of Enka İnşaat and its subsidiaries	101,201,575	100,644,652
Balance at January 1, of the joint ventures followed up on line by line basis	16,571,541	13,747,029
Balance at January 1, of the joint ventures	1,049,875	4,347,820
Balance at January 1	118,822,991	118,739,501
Change in scope of consolidation	(135,503,189)	-
Deferred income tax benefit recognized in income statement	(15,216,353)	7,456,884
Deferred income tax benefit recognized in equity	(313,107)	(198,172)
Translation loss	4,534,557	(7,175,222)
Balance at December 31 of Enka İnşaat and its subsidiaries	(45,703,063)	101,201,575
Balance at January 31, of the joint ventures followed up on line by line basis	18,394,779	16,571,541
Balance at December 31, of the joint ventures	(366,817)	1,049,875
	(27,675,101)	118,822,991

20. EMPLOYEE TERMINATION BENEFIT

Under the Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, who is called up for military service, dies or who retires after completing 25 years of service (20 years for women). The amount payable consists of one month's salary limited to a maximum of YTL 1,575 (U.S. Dollars 1,173) (2003-YTL 1,390 (U.S. Dollars 996)) for each year of service at December 31, 2004.

The liability is not funded, as there is no funding requirement.

The movement of provision for employee termination is as follows:

	2004
At January 1,	6,676,090
Charge for the year, net (*)	2,826,603
Translation loss	793,618
Paid	(953,862)
At December 31,	9,342,449

(*) Within the total balance, U.S. Dollars 795,595 is related with the Power Companies acquired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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21. GOODWILL

On December 3, 2003, as a result of the purchase of 9.00% of the shares of Power Companies, a negative goodwill in excess of the fair value of net assets acquired over cost at the amount of U.S. Dollars 16,327,623 has been recorded in the consolidated financial statements. On June 24, 2004 and December 28, 2004, the Company has purchased additional 25.00% and 16.00% shares of Power Companies respectively as a result of these purchases, positive goodwill in excess of the cost over the fair value of net assets acquired amounting to U.S. Dollars 47,069,892 and U.S. Dollars 8,081,318 has been recorded in the consolidated financial statements respectively. Negative goodwill recognized as of December 31, 2003 is amortized using the straight-line method over its estimated useful life of 35 years as income over the remaining weighted average useful life of the identifiable depreciable non-monetary assets acquired. Positive goodwill recognized in 2004 is amortized using the straight-line method over its estimated useful life of 20 years and reviewed for impairment whenever events of changes in circumstances indicate that carrying amount of goodwill may not be recoverable. Whenever the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the consolidated statement of income.

The net amortization amount is U.S. Dollars 710,245 as of December 31, 2004.

As of December 31, 2004, the movement of sources of goodwill and details of respective amortization are as follows:

	Goodwill	
	2004	2003
Beginning of the year, net book value	(16,327,623)	-
Goodwill on new acquisitions	55,151,210	(16,327,623)
Charge for the year	(710,245)	-
Less : provision for impairment	-	-
End of the year, net book value	38,113,342	(16,327,623)

22. MINORITY INTERESTS

The movement of minority interest for the year ended December 31, 2004 is as follows:

	2004	2003
January 1	111,506,346	171,693,487
Change in the scope of consolidation	-	(69,045,217)
Exchange and remeasurement adjustment	12,949,142	5,596,757
Dividends paid	(4,812,255)	(7,626,090)
Minority effect of subsidiaries acquired and changes in shareholding interest	24,735,702	-
Share of net profit of subsidiaries	23,267,437	10,887,409
December 31	167,646,372	111,506,346

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23. SHARE CAPITAL

	2004		2003	
	Percentage of Ownership	Amount	Percentage of Ownership	Amount
Tara Holding	47.24%	54,775,785	47.24%	37,793,975
Tara and Gülçelik families	29.70%	34,437,782	29.89%	23,913,250
Publicly traded	12.40%	14,378,064	12.01%	9,608,502
Enka Spor Eğitim ve Sosyal Yardım Vakfı	6.29%	7,293,389	6.49%	5,192,271
Alternatif Aksesuar Sanayi ve Ticaret Ltd. Şti.	4.37%	5,067,108	4.37%	3,496,183
	100.00%	115,952,128	100.00%	80,004,181

The percentages of ownership of the shareholders are computed over the nominal value of shares.

As of December 31, 2004, the Company's historical subscribed and issued share capital in the statutory books is YTL 200,000,000 (2003 - YTL 100,000,000), which consisted of 200,000,000,000 (2003 - 100,000,000,000) authorized and fully paid shares, each with YKR 0.1 nominal value.

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

	2004	
	Number	YTL
At January 1,	100,000,000,000	100,000,000
Shares issued in		
- restatement of share capital	50,000,000,000	50,000,000
- bonus shares issued out of general reserve	43,745,360,000	43,745,360
- investment sales profit	6,254,640,000	6,254,640
At January 31	200,000,000,000	200,000,000

Within the above mentioned shares, founders of Enka İnşaat and Enka Holding have one thousand founders share each. The founders' share of Enka İnşaat and the founders share of Enka Holding are entitled to receive, 5% and 2.5%, respectively, of the net income after the deduction of legal reserve and the first dividends.

24. LEGAL RESERVES AND ACCUMULATED PROFIT

Retained earnings as per the statutory financial statements, other than legal reserves, are available for distribution subject to the legal reserve requirement referred to below.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. Dividend distributions are made in YTL in accordance with its Articles of Association, after deducting taxes and setting aside the legal reserves as discussed above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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24. LEGAL RESERVES AND ACCUMULATED PROFIT (continued)

Public companies in Turkey (only applicable for Enka İnşaat ve Sanayi Anonim Şirketi, Kelebek Mobilya ve Kontrplak Sanayi Anonim Şirketi and Pimaş Plastik İnşaat Malzemeleri Anonim Şirketi) make profit distributions in accordance with the regulations of TCMB as described below :

Effective from January 1, 2004, based on the profits calculated in financial statements prepared in accordance with the accounting policies promulgated by TCMB, appropriation of 30% of the distributable profit is obligatory if statutory financial statements has sufficient reserve to distribute. Based on the General Assembly's decision, this appropriation may be on cash basis or through the distribution of free shares not less than 30% of the distributable profit, or may be distributed both as cash and free shares.

Composition of retained earnings (per statutory financial statements of Enka İnşaat) at December 31, 2004 and 2003 is as follows:

	2004		2003	
	YTL	U.S. Dollars	YTL	U.S. Dollars
- Legal reserves	50,267,197	37,454,136	11,275,757	8,078,145
- Undistributed general reserve	4,700,977	3,502,702	-	-

The statutory accumulated profits and statutory current year profit are available for distribution, subject to the reserve requirements referred to above.

Dividends Paid and Proposed

During 2004, the dividend distributed by Enka İnşaat amounted to YTL 30,557,135 (U.S Dollars 19,893,916).

As of the preparation date of the financial statements, the dividend distribution from 2004 operations has not been decided yet.

25. EARNINGS PER SHARE

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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26. RELATED PARTY TRANSACTIONS

Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Company is controlled by Tara Holding (47.24%) and Tara and Gülçelik families (29.70 %). For the purposes of the consolidated financial statements, balances with the shareholder companies, individual shareholders, unconsolidated subsidiaries, associated companies, equity participations and their affiliates are referred to as "related parties". Related parties also includes management and members of the Company's Board of Directors.

In the course of conducting business, the Company conducted various business transactions with related parties on commercial terms. The breakdown of balances with related parties and details of significant related party transactions are as follows:

(a) Trade receivables/payables

	2004		2003	
	Receivables	Payables	Receivables	Payables
Entrade Limited	4,545,993	-	15,533,335	-
Enka Müteahhitlik	3,765,029	-	-	-
Derince	692,096	-	-	-
ZAO Kelebek	647,737	-	687,520	-
HTC Türkiye	329,101	-	-	-
Pimapen Moscow	275,800	-	-	-
Burkas	-	-	577,184	-
Enmar Trading Limited	-	-	-	13,099,386
O&M Intergen	-	1,370,486	-	-
Others	85,919	384,837	634,503	221,460
	10,341,675	1,755,323	17,432,542	13,320,846

As of December 31, 2004, U.S. Dollars 3,180,000 (2003 - U.S. Dollars 15,533,335) of total receivables from Entrade Limited consists of long-term receivables.

(b) Other receivables/payables

	2004		2003	
	Receivables	Payables	Receivables	Payables
Entrade Limited	3,180,000	-	5,599,332	-
Enet	-	-	322,687	-
Others	-	40,857	1,005,554	-
Individual Shareholders	-	308,378	-	21,815
	3,180,000	349,235	6,927,573	21,815

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26. RELATED PARTY TRANSACTIONS (continued)

(c) Transactions during the year

	2004	2003
Sales and Services to Related Parties		
Sales	2,260,478	2,914,523
Marketing, research and other services given	991,309	1,187,958
Rent income	356,378	198,166
Participation of the related parties into general and administration expenses of the Company	-	36,243
Other income, net	55,275	-
Purchases and Services from Related Parties		
Purchases	59,032,900	57,363,991

Director's remuneration

The executive management of the Company received remuneration totaling U.S. Dollars 8,787,941 (2003 - U.S. Dollars 8,136,794).

27. REVENUES AND EXPENSES

	2004	2003
Other Operating Income		
Gain from change in fair value in investment property	36,836,845	-
Reversal of excess tax expense	4,482,516	3,728,804
Gain from sales of property, plant and equipment, net	3,554,814	1,284,594
Rent income	2,283,821	2,896,371
Service income	1,558,478	10,044,114
Machinery rent income	864,605	314,044
Commission income	613,831	442,126
Goodwill amortization	466,503	-
Term difference income	299,067	345,327
Insurance compensation income	145,060	5,657,531
Reversal and collection of doubtful receivables previously reserved for	334,877	950,589
Reversal of provision for VAT	-	1,572,702
Incentive received	-	1,093,925
Others	4,585,762	2,333,539
	56,026,179	30,663,666

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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27. REVENUES AND EXPENSES (continued)

	2004	2003
Other Operating Expense		
Provision for doubtful receivables	3,542,236	116,591
Provision for investments	2,521,029	1,414,791
Idle time expenses	1,680,514	1,361,496
Tax indemnities	1,515,110	2,622,922
Goodwill amortization	1,176,748	-
Service expense	1,136,084	-
Donations	1,073,521	1,072,839
Bonus accrual	1,053,500	-
Commission expense	662,480	217,275
Provision for legal cases	590,046	2,700,000
Loss from sales of property, plant and equipment	318,062	2,856,756
Loss from change in fair value in investment properties	-	1,524,075
Incentives given	-	2,092,000
Tax penalties	-	493,738
Others	3,636,222	3,132,277
	18,905,552	19,604,760
Financial Income		
Interest income	24,104,419	23,195,958
Foreign exchange income	18,163,116	6,329,410
Income from valuation and sale of investment securities	12,048,943	8,037,949
Forward income	3,719,725	8,734,072
Others	112,375	-
	58,148,578	46,297,389
Financial Expenses		
Interest expenses	47,587,349	6,024,348
Deferred financing costs	5,398,791	-
Losses from valuation and sale of investment securities	5,282,465	3,886,956
Commission expenses of letters of guarantee	2,228,691	80,502
Bank commission expenses	769,572	6,328,993
Others	604,313	115,978
	61,871,181	16,436,777

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27. REVENUES AND EXPENSES (continued)

Depreciation and amortisation included in consolidated statement of income is as follows:

	2004	2003
Depreciation included in		
Cost of revenues (*)	46,768,432	18,167,650
Selling and administrative expenses	8,379,374	8,441,871
Other operating expense	426,391	246,840
Inventory	392,777	286,435
	55,966,974	27,142,796
Amortization included in		
Cost of revenues (*)	85,947	31,588
Selling and administrative expenses	894,677	602,524
Inventory	-	2,440
Other operating expense (goodwill)	1,176,748	-
Other operating income (goodwill)	(466,503)	-
	1,690,869	636,552
Staff costs		
Wages and salaries	120,698,224	102,315,832
Social security costs	11,894,220	8,053,428
Provision for employee termination benefits	2,826,603	1,936,132
Other benefits	2,866,092	4,613,846
Staff costs capitalized on construction in process	13,504,352	1,572,610
	151,789,491	118,491,848

(*) Within the total balance of depreciation and amortization charge, U. S. Dollars 28,426,670 and U.S. Dollars 85,946 are related with the charge for the second half of the year for Power Companies.

The average number of employees for the years 2004 and 2003 is:

	2004	2003
Turkey	2,267	1,989
Other regions	20,263	12,995
	22,530	14,984

28. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

i) Future minimum lease payments under non-cancellable operating leases of the Company due to its operations in Russia are as follows as of December 31:

	2004	2003
Within one year	3,177,775	2,457,012
After one year but not more than five years	11,007,452	9,424,226
More than five years	14,083,679	20,600,654
	28,268,906	32,481,892

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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28. COMMITMENTS AND CONTINGENCIES (continued)

Construction Commitments

The Company has a commitment in respect of the construction of a hotel in Moscow, Russia. Construction will commence during 2003 and is estimated to cost approximately USD 91,000,000 excluding VAT tax. The Company's Management believes that future net revenues and external funding will be sufficient to cover this commitment.

Litigations

- The Company has a tax dispute with the Croatian Tax Authorities related to the profit tax of the years 1998, 1999 and 2000 at an amount of U.S. Dollars 11,267,331 including the interest of U.S. Dollars 4,823,500. As the Company's Management currently believes that the case will result in favor of the Company, no provision is provided for this case in the consolidated financial statements. Furthermore, there are several lawsuits opened against the Company related to the quarries' permit through the construction of the motorway project. The Company has reflected a provision of U.S. Dollars 2,700,000 in the consolidated financial statements for those lawsuits as of December 31, 2004.
- A case is opened against Enka Pazarlama regarding the non-compliance with respect to the payment of the period commissions of the guarantee given by a local bank in favor of Iran GTC Company. The Management of the Company believes that the case will be resulted in favor of the Company.
- One of the consolidated companies, Pimaş was a party to legal proceedings opened by Ministry of Finance related to its export transactions realized between 1997 and 2000. The Company has decided to benefit from the Tax Peace Law related to these cases, retroactively, which came into effect in 2003, and accepted to pay additional tax indemnities at an amount of U.S. Dollars 1,501,919 (YTL 2,015,725 penalty (in historical YTL). The amount has been recognized as "other operating expense" in the financial statements as of December 31, 2004. Pimaş paid U.S. Dollars 250,320 (YTL 335,955) portion in December 2004 to close such disputes. The remaining amount U.S. Dollars 1,251,599 (YTL 1,679,770) will be paid in five equal installments until November, 2005.

Others

- The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

As of December 31, 2004, the Company does not believe that any material matters exist relating to fiscal and regulatory environment in Russia, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be misleading.

The Company's operations and financial position will continue to be effected by Russian political developments including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Russia.

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28. COMMITMENTS AND CONTINGENCIES (continued)

- The Company has signed a pledge and assignment agreement dated as of October 27, 2000, with Westdeutsche Landesbank Girozentrale İstanbul Branch (Onshore Collateral Agent) in return of the loans obtained by the Power Companies. The Company has pledged and assigned all number of shares in these companies to the Onshore Colleteral Agent for the benefit of the financial institutions.
- As of December 31, 2004, the Company has outstanding letters of guarantee and collaterals amounting to U.S. Dollars 407,741,344 (2003 - U.S. Dollars 258,617,780) obtained from various banks and given to local and foreign banks, custom authorities, local and foreign government institutions and contract parties for contract advances, project transactions and bank borrowings obtained, of which U.S. Dollars 37,155,115 (2003 - U.S. Dollars 81,813,646) are related to joint ventures.
- As of December 31, 2004, the Company is contingently liable for the notes given as collateral amounting to U.S. Dollars 124,959,501 (2003 - U.S. Dollars 79,042,718).
- As of December 31, 2004, Pimaş and Kelebek Mobilya have export commitments at the amount of U.S. Dollars 11,464,760 (2003 - U.S. Dollars 3,895,841) with respect to the foreign currency loans with export commitments.

29. DERIVATIVES

In the ordinary course of business, the Company enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include foreign currency forwards.

The table below shows derivative financial instruments analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of financial instrument is calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

As of December 31, 2004 the notional amounts of forward transactions comprised :

	2004				
	Unrealized Gains	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Derivatives held for trading					
Forward sale contract	593,426	-	9,896,226	1,324,500	1,326,000
Forward purchase contract	-	-	10,417,852	1,361,150	1,361,150

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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30. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

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

The Company is exposed to market risk, including primarily changes in interest rates and currency exchange rates and uses other instruments in connection with its risk management activities. Market risk is closely monitored by the management using the available market information and appropriate valuation methods.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's portfolio available for sale and obligations under short-term and long-term bank borrowings. The Company manages interest rate risk through natural hedges that arise from offsetting the same interest bearing assets and liabilities.

Foreign Currency Risk

The Company is engaged in construction, trading, energy and real estate operations business in several countries and, as a result, is exposed to movements in foreign currency exchange rates. In addition to transactional exposures, the Company is also exposed to foreign exchange movements on its net investments in foreign subsidiaries. The Company manages foreign currency risk by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

Price Risk

The Company's exposure to price risk is minimal.

Credit Risk

Credit risk arising from the inability of a counterparty to meet the terms of the Company's financial instruments is generally limited to the amounts, if any, by their carrying values. It is the Company's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Company does not expect to incur material credit losses on its risk management or other financial instruments.

Credit Risk Exposures

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligations as of balance sheet date in relation to each class of recognized financial assets, is the carrying amount of those assets as indicated in the balance sheets.

Significant Concentration of the Credit Risk

Concentration of credit risk exists when changes in economic, industrial or geographical factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. As of December 31, 2004, the Company's portfolio of financial instruments is broadly diversified along product and geographical lines, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

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30. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

In order to carry on their operations, the companies are obliged to raise adequate funds to meet their commitments. The risk is monitored by matching the cash in and out flow volume supported by committed lending limits from qualified credit institutions.

Fair Value of Financial Instruments

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

Fair values of certain financial assets and liabilities carried at cost, including cash and cash equivalents, contract and trade receivables, retention receivables, short-term bank borrowings and obligation under the trade payables and other monetary assets and liabilities are considered to approximate their respective carrying values due to their short-term nature and due to their being denominated mostly in foreign currencies.

The carrying value of long-term funds borrowed also approximates the market value due to the variable interest rates with changing market conditions and due to their being denominated mostly in foreign currencies.

31. SUBSEQUENT EVENTS

- (a) Based on the Board of Directors' decision dated as of March 9, 2005, the Company has decided to act as a guarantor for the bank loan obtained by the 50% jointly ventured company Ramenka at the amount of U.S. Dollars 40,000,000 with an interest rate of Libor+5.8%, which the Company has 50% guarantee on the balance.
- (b) The retirement pay liability ceiling has been increased to YTL 1,649 (U.S. Dollars 1,229) valid from January 1, 2005.