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**Türk Pirelli Kablo ve Sistemleri A.Ş.**

## Türk Pirelli Kablo ve Sistemleri A.Ş. at a Glance

Message from the Chairman

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## Türk Pirelli Kablo ve Sistemleri A.Ş. at a Glance

Since its establishment, our company has sustained its leadership as regards innovation, technology, quality, and customer satisfaction in Turkey and in the international markets. The ownership of the cable factory which was established in 1964 in Mudanya and which belonged to Türk Siemens passed to Pirelli Group on August 5, 1999.

Pirelli Cable and Systems, with its 55 production plants, more than 14,000 employees, and a turnover of more than Euro 3.0 Billion, is one of the cable producers that have the most advanced technology in 22 countries. Considering its advanced technology, research and development potential, the professional capabilities of its dynamic personnel and its strong resources, the leadership image of Pirelli Cable and Systems in the international markets is uncontested. Today, Türk Pirelli Kablo ve Sistemleri A.Ş. is carrying out its activities in an open area of 180,000 square meters (79,000 square meters of covered area).

All the energy cables up to 220 kVolts, copper conductor communication cables up to 3600 pairs and optical fiber cables are in the product mix of Türk Pirelli Kablo ve Sistemleri A.Ş. Our company is the owner of the unique thermal, mechanical, chemical and electrical scientific research and test laboratories in the cable sector, and the said laboratories use the most advanced technology and are certificated by the Turkish Standards Institute. Besides this, our company performs **“turn-key”** projects for cables and systems and continuous offering unique and superior services to all of our customers.

The Company with its revolutionary and patented AIRBAG cable production technology produces cables that are mechanically impact resistant, need fewer joints, high on flexibility and considerably light in weight. Furthermore, the company produces AFUMEX cables with Low Smoke Zero Halogen Technology for use especially in areas of high human density. AFUMEX cables produce considerably lesser smoke and toxic gases with non acid emissions in comparison with classical cables. AFUMEX certainly provides the “peace of mind” in obtaining greater human safety and minimizing damages to structures during fire.



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The installed capacity of Türk Pirelli Kablo ve Sistemleri A.Ş. is able to meet the whole demand of the domestic market and is also at a level to compete in the international markets. Türk Pirelli Kablo ve Sistemleri A.Ş. which continues to be a privileged export center within the Pirelli Group exported 32% of its turnover amounting to YTL210,885,327 in 2004.

Türk Pirelli Kablo ve Sistemleri A.Ş. which increases the effectiveness of its products and services every day not only in Turkey, but also in the global markets has proven the value it gives to human beings and to the environment by obtaining the first ISO / DQS 9001 and ISO 14000 certifications in its sector. Basically, Türk Pirelli Kablo ve Sistemleri A.Ş. has always aimed at forming product, system and service standards in its sector, and at having a continuous improvement and at increasing consumer conscience all the time, and as from its establishment it has succeeded in integrating its superior quality with environment friendliness.



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## Message from the Chairman

### Dear Shareholders,

Following the EU's positive Progress Report in October 2004, on the 17<sup>th</sup> of December 2004 the EU Council decided that Turkey had met the political criteria to start the negotiation period as regards its membership application. In conjunction with this, the negotiations with EU will start in year 2005. This is a very important step to encourage and accelerate positive changes and improvements in economic, social and political environment in Turkey.

The year 2004 became a stability year for Turkish economy. After the financial crisis of 2000 and 2001, and following healing years of 2002 and 2003, Turkish economy stabilized relatively quickly, and enjoyed also a period of strong growth in 2004.

Turkey succeeded in combating high and chronic inflation and brought it down to 9.3% (in consumer price index) in 2004.

The economy over came the tremendous difficulties and showed a remarkable improvement. In 2002 and 2003, GDP grew by some 6.5% on average, well above Turkey's long-term growth average of 4.5%. And in 2004 growth rate for GDP is expected to be around 9%. Additionally, 2004 became a year signifying a strong Turkish Lira.

These improvements in Turkey's macro and financial fundamentals took place, as a result of sound macroeconomic policies and extensive structural reforms supported by the IMF and in line with EU norms and regulations.

Within all this perspective, Türk Pirelli Kablo ve Sistemleri A.Ş. preserved its place strongly in the market and increased its profitability significantly in 2004.

The net sales of our company has reached YTL211 million in 2004, while it was YTL179 million in 2003. Export sales of our company realized as YTL59.9 million in 2004, while it was YTL73.2 million.



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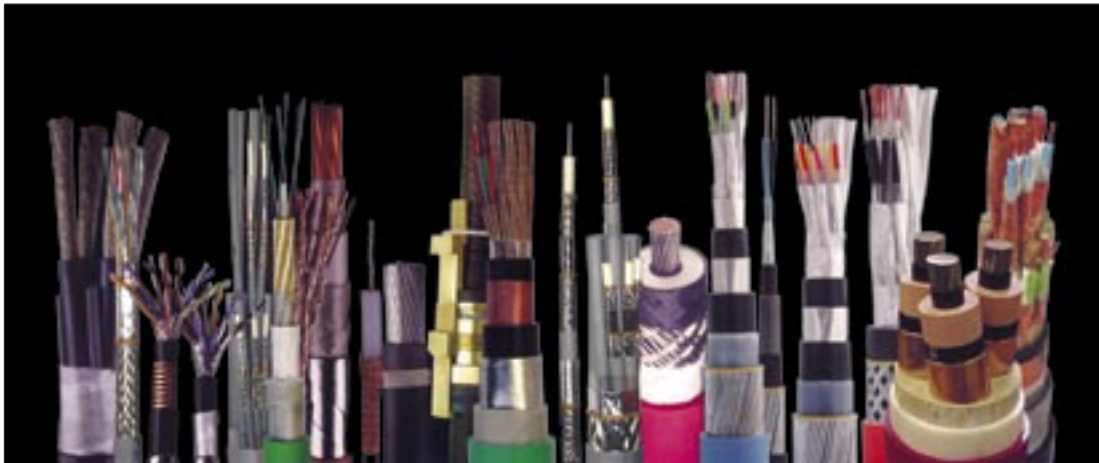
As a result, Türk Pirelli Kablo ve Sistemleri A.Ş. transformed its almost YTL1.18 million net profit in 2003 into a YTL1.7 million net profit in 2004. This strong success and outcome have renewed our confidence and outlook.

High qualification of our products, strong financial structure, capable management, efficient organization, strong export capabilities, and a reputation for integrity and social responsibility will give Türk Pirelli a decisive advantage in the year ahead.

On behalf of the Board of Directors, I would like to thank our diligent staff whose devotion has enabled Türk Pirelli to reach its current position. I also wish to thank our shareholders for their continuous support as well as our customers for their confidence in Türk Pirelli.

I hope that the year 2005 will be a year of peace and welfare for the whole world and for our country, and I present my best wishes to you all.

**SELAHATTİN BEYAZIT**  
Chairman of the Board





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## Board of Directors

**Selahattin Beyazıt**  
Chairman

**Valerio Battista**  
Vice Chairman

**Carlo Costa Ardisson**  
Managing Director

**Sabri Metin Ar**  
Member

**İshak Alaton**  
Member

**Aldo L. Kaslowski**  
Member

**Piero Sierra**  
Member

**Hakan Özmen**  
Member

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## Executive Management

**Carlo Costa Ardisson**  
Managing Director

**Hakan Özmen**  
Chief Operations Officer

**Muhittin Kızıl**  
Group Personnel Director

**Halil İ. Kongur**  
Industrial Director

**Kudret E. Ünal**  
Commercial Director

**Erkan Aydoğdu**  
Logistic Manager

**İ. Etem Bakaç**  
Domestic Sales Manager

**Esat Baykal**  
Quality Manager

**Zafer Baykan**  
Telecom Cables Production Manager

**Saim Çubukçu**  
Group Purchasing Manager

**Abdurrahman Güngör**  
R&D and Quality Assurance Manager

**Remzi Ejderoğlu**  
Group Information Systems Manager

**Ercan Karaismailoğlu**  
Administration and Control Manager

**Deniz R. Özilhan**  
Group Legal Affairs Manager

**Murat Tezcan**  
Export Sales Manager

**Okay Yıldız**  
Technical Service Manager



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## Agenda

30<sup>th</sup> March 2005 Wednesday 11:00

1. Muster and election of the Presiding Council Officers to preside over the meeting,
2. Authorisation of the Presiding Council to sign the Minutes of Meeting,
3. Reading the Board of Directors; the Auditors and Independent External Auditors Reports, the Balance Sheet, and the Profit and Loss Statement for the trading period of 01.01.2004 - 31.12.2004,
4. Discussion, approval and adoption by the Board of Directors; the Auditors and Independent External Auditors Reports, the Balance Sheet and the Profit and Loss Statement for the trading period of 01.01.2004 - 31.12.2004. Adoption of resolutions in respect of discharging the members of the Board of Directors, and to adopt the resolutions in respect of the appropriateness for the appointments to the empty board membership during the year 2004,
5. Adoption of a resolution concerning the Board of Directors' proposal for the distribution of the profits for the trading period of 01.01.2004 - 31.12.2004,
6. To elect the new members of the Board of Directors whose terms have come to an end, and determination of their conciliation pays,
7. Election of the Auditors and determination of their remunerations,
8. To inform about the donations made during the year 2004
9. To authorize the board of directors, to make the necessary arrangements to re-decide the nominal values of the company securities in line with the new legislation, to make the necessary changes and registrations in company books, and in line with this scope and in necessity to collect the securities of the company from the shareholders in order to change them with new ones that would be prepared as New Turkish Lira,
10. To accord the Chairman and Members of the Board liberty of action in conformity with articles 334 and 335 of the Turkish Commercial Code,
11. To discuss and adopt a resolution, in order to authorize Managing Director to decide, according to the company rules and principles, the amount of the incentives, to pay the incentives for the staff, who are reached their targets, in line with instructions that they have received from the management level of the company and helped to the company to reach the yearly targets for the year 2004
12. Any other business.



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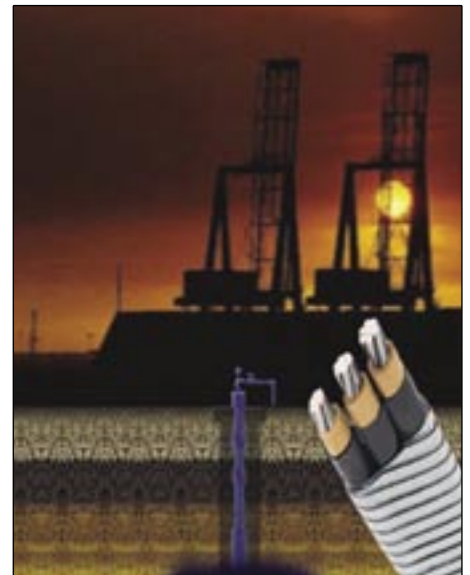
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Following the European Union's positive Progress Report in October 2004, on the 17<sup>th</sup> of December 2004 the EU Council decided that Turkey had met the political criteria to start the accession negotiation period. Accession negotiations on full-membership will start on the 3<sup>rd</sup> of October 2005 and are expected to cause Turkey to experience a vast transformation. Undoubtedly, this is a very important step for Turkey.

The economic program which had been implemented for 3 years yielded pretty impressive results. Although the Turkish economy suffered from very serious (cumulative) economic problems in the past, it is now on the brink of attaining the main targets of the recent economic program: Economic stability and sustainable growth and disinflation.



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### General Outlook to the Turkish Economy in 2004

Turkey's economy enjoyed a period of strong growth in 2004. After the financial crisis of 2000 and 2001, by following its IMF backed economic program, (\$19 billion Stand-by Agreement with the IMF), Turkey stabilized relatively quickly.

As of late 2004, growth was restored on a reliable course, inflation was under control, and fiscal management improved substantially.

The economy (GDP) grew by 7.8% in 2002, 5.6% in 2003 and it is estimated to be around 9% for 2004. The main drivers behind the growth in 2004 were export-led production and an increase in domestic demand, namely realization of delayed demand due to previous years' economic difficulties. Inflation was at its lowest level in 30 years. Consumer Price Inflation (CPI) fell to just 9.3% at the end of 2004. Meanwhile, interest rates also fell in 2004.

In the meantime, the Turkish Lira stabilized against both the dollar and the euro. The policies of the autonomous Central Bank had a significant impact on the economy. The government's tight policies reduced the likelihood of another banking crisis, but weaknesses remain. Meanwhile, Central Bank had sufficient foreign exchange reserves (US \$36 billion dated December 2004) to further its policies successfully.

Referring to (FDI) foreign direct investment, the government convened an investors' council of leading multinational CEOs in April 2004 with the aim of encouraging greater flows of foreign investment. The opening of EU accession negotiations in 2005 will play a key role in attracting greater levels of FDI in the future.

As regards privatization projects, the government completed some privatization projects in 2004, even if it was far less than the planned amount. The reasons for the failures were unrealistic expectations of the companies value, lack of demand and legal conflicts.

In 2004 the government was generally successful in achieving its fiscal targets. The budget recorded a primary surplus of 6.2% of GDP in 2003 and the primary surplus (budget revenues minus expenditure before interest payments) is expected to exceed the 6.5% GNP target in 2004.



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On the negative side, the fiscal position is somewhat distorted by the unregistered economy and a large social security deficit. The government should make some improvements in some areas, such as current account deficit (reaching \$15 billion in 2004) and increasing public debt.

Eventually, year 2004 was a turnaround year for the Turkish economy in terms of reaching stability and going back to normality following previous crisis and healing years, whereas Turkey should pursue its tight economic program strictly in years to come.



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### General Economic Expectations in 2005 – The World and Turkey

#### The World Economy in 2005:

Since the period of 2001, when much of the world was in economic recession, the economic situation steadily improved in 2004. By 2004 global GDP grew about 5%, its fastest pace for over 20 years. In 2005 global growth – though still over 4%, perfectly reasonable by historical standards- will be markedly lower. There have been three key factors influencing global growth: the strength of American demand, the Chinese economic boom and cheap money.

In fact, all these three factors started to change. USA's swelling budget deficit virtually rules out further tax cuts or another jump in spending. And the US Federal Reserve is determined to bring interest rates back to a normal level. Despite dollar depreciation, imports have risen rapidly, but exports less so, exerting a drag on GDP and worsening an already wide current account gap. On the other hand, employment creation in USA has gathered pace, and unemployment has shrunk further, although participation in the labor force has continued to decline.

In China, a slowdown from the rampant growth of recent years is also in prospect. In many sectors, there is evidence of over-capacity and falling margins. The repercussions of policy tightening and slowing of these economic giants will be felt around the globe.

Emerging Asian economies, which traditionally thrive when the world trade is rising rapidly, will have to get used to slower demand in their key markets. Latin America, reliant on foreign capital in order to roll over substantial debts, will face rising borrowing costs.





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Generally speaking, only in Western Europe and the Middle East are growth prospects for 2005 on a par with those of 2004. In Western Europe a modest expansion in GDP was pulled by external demand in 2004. Domestic demand which was still weak in the 4<sup>th</sup> quarter of 2004 seems poised to gather strength. There are some regional differences in the Euro zone in terms of economic profiles. In this context, Germany will keep on struggling with increased unemployment level. Furthermore, in the case of Middle East, oil revenues will boost government coffers and allow increased investments.

In summary, 2005 should be a reasonable year for world growth, in comparison with much of the past ten years. However, even if it is estimated as a stable year, it will be considerably weaker than 2004.



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### Turkish Economy in 2005:

The Turkish Central Bank introduced a new currency (the New Turkish Lira YTL) on 1<sup>st</sup> of January 2005 by cutting six zeros from the currency successfully. It is also a sign that the Central Bank is confident that the rampant inflation that eroded Turkish Lira's value in the past decades is over. The Bank is not anticipating any risk to its year end inflation target of 8% for 2005.

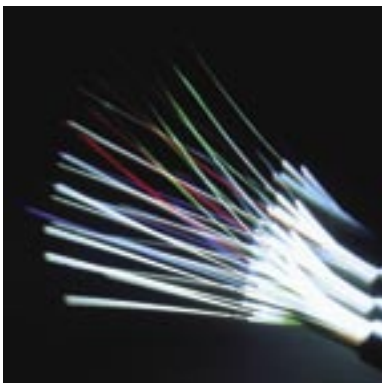
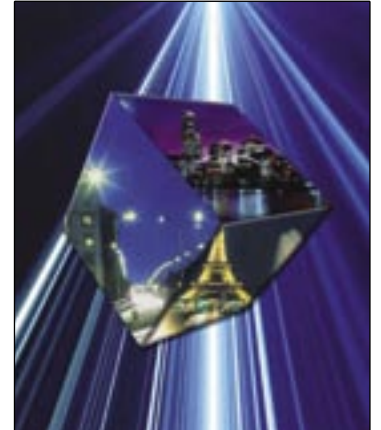
The existing Stand-By Agreement with the IMF will be completed in March in 2005. The Turkish government has declared its willingness to sign a new three-year Stand-By Agreement with the IMF. The government's economic program contains strong commitments regarding disinflation, sustainable debt dynamics, privatization, fiscal discipline and public sector reform.

The government's 2005 privatization program includes the block sale of 55% of Turk Telecom, block sale of tobacco concern of "Tekel" and sale of state oil refinery "Tüpraş".

The government is expected to pass a new Banking Act in early 2005 to bring local banking practices closer to EU standards. The law will introduce strict rules regarding the "fit and proper" criteria for bank ownership, restrict risk exposure to group companies and enhance the supervision of the sector.

Notwithstanding all these achievements, undoubtedly Turkey should proceed with further structural reforms and the continuation of sound economic policies. Challenges that call in for further progress in the near term have to focus on fiscal and financial issues and improving the investment environment.

In fact, in 2004 the business environment improved and exhibited many strengths. However, a major problem is the significant extent of unregistered activities in the economy which leads to a narrowing of the tax base.





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Within this framework, it is thought that in 2005 priority should still be given to such matters as high public expenditures and public deficits and over-employment in the public establishments. In addition to this, it can be said that management of domestic and foreign debts, current account deficit, foreign capital inflow, increase of fixed capital investments, rational materialization of privatization targets, and increase of employment possibilities will be some of the items on Turkey's agenda in 2005.

It is quite clear that the accession negotiation period, which will begin as from October 2005, regarding Turkey's EU candidacy will be an important boost for Turkey with respect to furthering its structural reforms and improvements.

Within all this framework, the continuation of the economic program without any deviation in 2005 is very important for maintaining the existing economic balances. In this respect, and taking as basis the macro-economic balances ensured in 2004, in a medium where public expenditures and consolidated state budget are closely controlled, it is thought that a yearly inflation rate held within the target and a reasonable growth rate will improve the economic indicators of Turkey in 2005.



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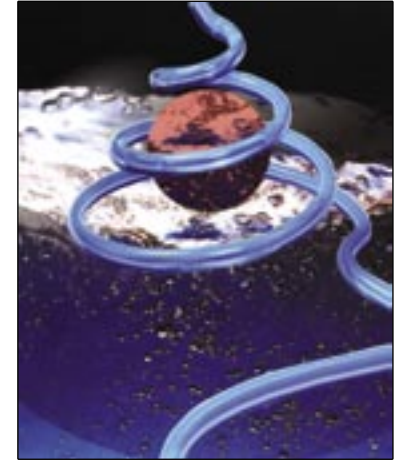
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### Sector Analysis

In Energy sector where the effects of the economic crisis of 2001 had been felt intensively during the two years following the crisis, the results of 2004 provided a hopeful image for the future as regards the cable industry in the energy sector. TEİAŞ, TEDAŞ and Türk Telekom, the most important state organizations in the sector, started materializing some of the investments they had postponed for a long time. Taking into consideration the fact that a positive result may be obtained in the historical summit of the European Union on December 17, 2004, the private sector too made the investments they had postponed for a long time. Those developments in the public and private sectors put the gears into motion as regards the cable sector in Turkey.



The domestic cable market showed a growth of 10% as compared to the previous year. In 2004 where stagnancy in the world telecommunication sector continued, exports did not show a remarkable increase on US Dollar basis. However, energy cable exports rose by 78% \* in 2004 on US Dollar basis. Moreover, approximately 50% of the cables produced in Turkey were exported. Cable producers that tried to utilize their capacity surplus via exports in 2003 increased their exports even more in 2004.

As a result of the decision of the High Council of Privatization, TEDAŞ was taken within the scope of privatization. The decision for the completion of the privatization formalities until December 31, 2006 and the decision disclosed by the Privatization Administration on November 25, 2004 regarding the block sale of 55% of the shares of Türk Telekom were received as a positive sign for the future of the energy sector.

Although the Electricity Market Law which had been prepared in accordance with the European Union directives with a view to having a competitive free market and which had been in force for three years, the privatization of the generation and distribution facilities was delayed. As from September 2003, the companies that obtained licenses from the Energy Market Regulatory Authority started their production and this was the first step of privatization. The uncertainty experienced on the distribution side decelerated the private sector investments that would form the energy market, and also the activities concerning the re-structuring of the energy sector.



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In an environment where an extremely important point was reached as regards the energy sector, and the efforts for the privatization of the electricity distribution facilities reached no positive results and when it was thought that 2004 would be lost year, ETKB, EPDK, the Treasury Under Secretariat, the State Planning Organization and the Privatization Administration got together, and by benefiting from the views of experts from time to time the Electrical Energy Sector Reform and Privatization Strategy Document was published as a result of the Superior Planning Board decision dated March 17, 2004 and No. 2004/3. With this Strategy Document signed also by the Prime Minister, a calendar was established for the privatization of the electricity sector, and the fact that a point of no return was reached as regards the privatization of the electrical sector was supported by also a political determination. As a result of the critical privatization in the energy sector which was considered as a strategic sector even by the Court of Constitution, a reduction in the costs, an increase in the quality of supply, the minimization of losses and the prevention of non-authorized use of electricity are targeted. It is expected that the necessary works will begin without delay and that the necessary concrete steps will be taken in 2005.



As a result of the laws within the framework of harmonization with the European Union and the regulations and notifications concerned with these laws, in 2004 an increased use of the energy and telecommunication cables which maximize the protection of human lives and property and which emit a minimum amount of smoke, do not contain toxic gases, do not spread flames, and sustain their function even when they are burnt proves to be a positive step concerning the awareness regarding the importance of protection of human lives and property in Turkey.

\* Source İMMİB





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*The detailed Balance Sheet and Income Statement for 2004 are enclosed. The explanations as regards assets and liabilities and income statement are given below.*



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#### Assets

Cash holdings amount to YTL10,998, of which YTL311 is in New Turkish Liras and the remainder in foreign currency.

Deposits in banks total YTL27,479,552 of which YTL5,512,282 Million is held in Turkish Lira accounts and YTL21,967,270 in foreign currency accounts. In this group, there is a check to the sum of YTL281,250 delivered to the Social Security Organization and the Customs Bureau, which decreases the amount of our bank deposits.

Short term trade receivables reached the sum of YTL48,536,424. In this group, customer accounts amount to YTL48,377,412 of which YTL32,823,723 is from domestic customers, and YTL15,553,689 from customers outside Turkey in foreign currency. The average collection period of our receivables was 87 days.

Rediscount on notes receivable to the sum of YTL12,340,696 was calculated as YTL607,331. The provision for doubtful domestic and foreign receivables is YTL11,575,433.

Our inventories increased by 4.6% over the previous year and totaled the sum of YTL36,126,482. The total of raw materials and materials existing in the inventories amounted to YTL10,006,587, semi-finished goods to YTL8,705,760, commercial goods to YTL271,796, and finished goods to YTL8,221,385. The other inventories to the sum of YTL84,507 consist of scrap inventories. Advance payments for orders received amount to YTL9,503,882, of which YTL7,833,414 being the cost of construction and repair works which will take some time. The remainder consists of advance payments made to foreign and domestic suppliers. Provision for the inventories is YTL667,435.

Other current assets total YTL1,600,439, and consist of VAT receivable to the sum of YTL8,956, prepaid taxes to the sum of YTL1,330,916, and expenses for the coming months to the sum of YTL260,567.

Financial fixed assets amount to YTL2,920,343.

During the year, the expenses for tangible fixed assets amounted to YTL2,085,666 and the amount of tangible fixed assets which had been sold totaled YTL105,875. Net asset value was calculated as YTL68,976,082 by adding the difference due to the inflation adjustments of fixed tangible assets to the value of fixed tangible assets at the beginning of the year and deducting the accumulated depreciation. An important item within intangible fixed assets to the sum of YTL183,345 is the SAP software.



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#### Liabilities

There is no bank loans indicated in financial debts in 2004 and 2003.

Debts to suppliers increased by 36% as compared to last year and were realized at YTL20,241,683. Debts to domestic suppliers amounted to YTL16,404,989 and debts to foreign suppliers totaled YTL3,836,694.

Checks and notes issued for purchases on credit are to the sum of YTL24,051,306. From this amount, rediscount of notes payable totals YTL80,667.

Other short term liabilities reached the sum of YTL8,281,039. Out of this sum, YTL1,418,280 consists of taxes, fund and social security deductions, YTL6,524,836 are for accrued expenses, and YTL257,849 consists of wages, and the remainders are for other liabilities to be paid.

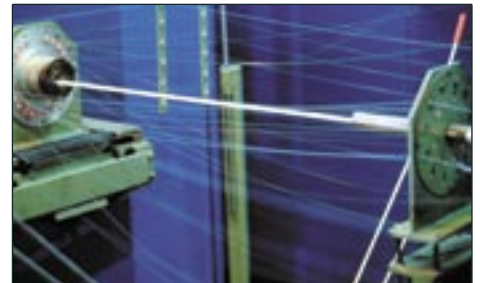
Provision for corporate tax for 2004 is YTL1,490,124.

In cases where the Labor Act deems it suitable, provision for severance indemnity payable to our personnel is YTL5,978,660 as of the end of the accounting period, the severance indemnity being calculated on the ceiling value of YTL1,574,74.

As regards legal reserves, first legal reserve is kept aside in proportion of 5% every year until it reaches 20% of the paid in capital. Within this framework, at the end of the year, our legal reserves amounted to the level of YTL114,614.

At the end of the year, Inflation Adjustment to Shareholder Capital amounted to YTL72,937,515. Inflation adjustment differences to share capital amounted to YTL8,462,823 and Inflation adjustments differences to legal reserves totaled YTL64,474,692.

Net profit for the period increased by 46% compared to the previous year and was realized at YTL1,724,072.



General Economic  
Situation

General Outlook  
to the Turkish  
Economy in 2004

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Expectations in  
2005 - The World &  
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Sector Analysis

**Financial Analysis**

Assets

Liabilities

**Income Statement**

## Board of Directors' Report

### Financial Analysis

#### Income Statement

Our gross sales increased by 46% as compared to last year, and reached the sum of YTL380,058,352. Our domestic sales totaled YTL312,600,663, and our exports YTL67,178,742. Other Sales amounted to YTL278,947 consists of interest charged on credit sales.

Total sales deductions amounted to YTL169,173,025, of which YTL3,569,490 consisted of sales returns and YTL165,603,535 corresponded to sales discounts.

The cost of the goods sold totaled YTL182,208,665 which corresponded to 86% of our net sales. The cost of the goods sold included the cost of raw materials and auxiliary materials, direct labor, expenditures for general production, overheads and depreciation, and changes in the inventories of semi-finished and finished goods.

During the year, operational expenses amounted to 12% of our net sales. Within this scope, in line with the importance accorded to research and development, our R&D expenses constituted 4% of our net sales revenue and reached the sum of YTL867,046.

Marketing, sales and distribution expenses accounted for 7% of the net sales and totaled YTL14,138,257, whereas general administrative expenses to the sum of YTL11,521,286 accounted for 5% of the net sales revenue.

Our revenues from other activities increased by 8% as compared to the previous year and reached the sum of YTL9,868,806, of which YTL588,542 consisted of dividend from investments, YTL1,628,305 consisted of interest on bank deposits and profits obtained by buying and selling our marketable securities as well as interest revenue limited as of the end of accounting period, and YTL3,767,692 consisted of exchange rate profits, YTL3,884,267 was generated by the sale of scrap, etc.. and by purchasing bonuses.

Financial expenses and short term loan expenses composed of the difference in exchange rates as regards our foreign currency trade debts amounted to YTL1,117,198.

Other extraordinary revenues to the sum of YTL2,686,740 consist of the reversal of provisions, income related to prior periods, and profit on sales of fixed assets.



**The Board of Directors**  
**February 24, 2005**



## Auditors' Report

Independent  
Auditor's Report

## Auditors' Report

**To the General Assembly of Türk Pirelli Kablo ve Sistemleri A.Ş.**

<b>Company Title</b>	: Türk Pirelli Kablo ve Sistemleri A.Ş.
<b>Head Office</b>	: Mudanya
<b>Capital</b>	: 39,312,000 - YTL
<b>Activity</b>	: Manufacturing of energy and telecommunication cables, insulated conductors
<b>Auditors' names and duration of their appointment, Their relation to the Company (partners or not)</b>	: M. İzzet Berk and Dr. M.Sabahattin Tezel, Ph.D. appointed to the accounting year 2004, both are not the employees.
<b>Number of Board of Directors meetings and the Board of Auditors meetings participated</b>	: No participation took place in Board of Directors meetings.
<b>Extent of audit made on the Company's accounts, books and documents, inspection dates and conclusions reached</b>	: During audits, it has been observed that the records were kept in accordance with the documents and accounting principles.
<b>Number of counts made at the Company treasury according to Article 353/1 - of the Turkish Commercial Law and their results</b>	: The records for the Period January 1, 2004 - December 31, 2004 have been inspected, it was observed that the cash balance was in accordance with the actual records
<b>Dates of audits made at the company treasury according to Article 353/1-4 of the Turkish Commercial Law and their results</b>	: Audits showed that the assets were existing and corresponded to the records kept
<b>Denunciations or irregularities reported to the Board of Directors and measures taken</b>	: No complaints or denunciations of any kind have been made to the Board of Auditors

We examined the accounts and transactions of Türk Pirelli Kablo ve Sistemleri A.Ş. for the period between January 1, 2004 and December 31, 2004 according to the generally accepted accounting principles and standards and also according to the Turkish Commercial Code, the Company Statutes and the generally accepted accounting principles published by the Capital Market Board (Notice No. : SPK XI/I and other notices which amended and made additions to this notice, and Notice Serial XI, No. 20 "Notice Regarding the procedures and principles regarding the correction of financial tables during periods of high inflation" - Inflation Notice -).

In our opinion, the appended Balance sheet, established on December 31, 2004 the contents of which we have approved, reflects the Company's real financial situation during the considered period and that the Income Statement for the period January 1, 2004 - December 31, 2004 reflects the real results of the activities for the considered period.

We submit for the acquitment the Balance Sheet and the Income Statement as well as the ratification of the Board of Directors.

**THE BOARD OF AUDITORS**

M. Sabahattin Tezel, Ph.D.

M. İzzet Berk

## Auditors' Report

Independent  
Auditor's Report**Independent Auditor's Report****Türk Pirelli Kablo ve Sistemleri A.Ş.****Convenience Translation Into English of Inflation Adjusted Financial Statements and Independent Auditor's Report for the Year Ended 31 December 2004  
(Originally Issued in Turkish)****PRICEWATERHOUSECOOPERS** 

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**Convenience Translation Into English of Financial Statements and Independent Auditor's Report Originally Issued in Turkish - See Note 34****Türk Pirelli Kablo ve Sistemleri A.Ş.****Independent Auditor's Report, 1 January - 31 December 2004**

1. We have examined the accompanying inflation adjusted balance sheet of Türk Pirelli Kablo ve Sistemleri A.Ş. ("the Company") at 31 December 2004 and the related inflation adjusted statement of income for the year then ended. All these financial statements are expressed in New Turkish Lira ("YTL") in terms of the purchasing power of Turkish Lira at 31 December 2004. Our examination was made in accordance with generally accepted auditing principles issued by the Capital Market Board ("CMB") and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
2. In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of Türk Pirelli Kablo ve Sistemleri A.Ş. as at 31 December 2004 and the results of its operations for the year then ended in accordance with generally accepted accounting principles issued by the CMB (see balance sheet note 11).
3. Additional paragraph for convenience translation into English:

The effects of differences between accounting principles issued by the CMB, the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with accounting principles generally accepted in such countries and IFRS.

Başaran Nas Serbest Muhasebeci  
Mali Müşavirlik Anonim Şirketi  
a member of  
PricewaterhouseCoopers

Coşkun Şen, SMMM  
Partner

İstanbul, February 24, 2005

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Inflation Adjusted Balance Sheets - Assets**  
**31 December 2004 and 31 December 2003**

(YTL)

	31-December-2004		31-December-2003	
<b>I- CURRENT ASSETS</b>		<b>116,921,467</b>		<b>98,805,944</b>
<b>A- Liquid Assets</b>		<b>28,003,663</b>		<b>22,010,280</b>
1- Cash	10,998		5,862	
2- Banks	27,479,552		21,679,366	
3- Other Liquid Assets	513,113		325,052	
<b>B- Marketable Securities</b>		<b>0</b>		<b>0</b>
1- Quoted Shares	0		0	
2- Private Sector Bonds and Treasury Bills	0		0	
3- Government Bonds and Treasury Bills	0		0	
4- Other Marketable Securities	0		0	
5- Allowance for Marketable Securities	0		0	
<b>C- Short Term Trade Receivables</b>		<b>48,536,424</b>		<b>35,971,587</b>
1- Customers	48,377,412		47,982,024	
2- Notes Receivable	12,340,696		4,224,785	
3- Deposits and Guarantees	1,080		2,024	
4- Other Short Term Trade Receivables	0		0	
5- Discount on Receivables (-)	(607,331)		(545,160)	
6- Allowance for Doubtful Receivables (-)	(11,575,433)		(15,692,086)	
<b>D- Other Short Term Receivables</b>		<b>2,654,459</b>		<b>3,123,073</b>
1- Receivable from Shareholders	0		0	
2- Receivable from Investees	0		0	
3- Receivable from Participations	0		0	
4- Other Short Term Receivables	6,125,770		7,230,249	
5- Discount on Receivables (-)	0		0	
6- Allowance for Doubtful Receivables (-)	(3,471,311)		(4,107,176)	
<b>E- Inventories</b>		<b>36,126,482</b>		<b>34,545,374</b>
1- Raw Materials	10,006,587		7,395,576	
2- Work in Process	8,705,760		6,779,281	
3- Semi-Finished Goods	0		0	
4- Finished Goods	8,221,385		7,484,251	
5- Trading Goods	271,796		180,081	
6- Other Inventories	84,507		263,689	
7- Over Allowance for Inventories (-)	(667,435)		(417,874)	
8- Advances Given for Inventory Purchases	9,503,882		12,860,370	
<b>F- Other Current Assets</b>		<b>1,600,439</b>		<b>3,155,630</b>
<b>II- LONG TERM ASSETS</b>		<b>72,098,296</b>		<b>78,801,448</b>
<b>A- Long Term Trade Receivables</b>		<b>47</b>		<b>54</b>
1- Customers	0		0	
2- Notes Receivable	0		0	
3- Deposits and Guarantees	47		54	
4- Other Long Term Trade Receivables	0		0	
5- Discount on Receivables (-)	0		0	
6- Allowance for Doubtful Receivables (-)	0		0	
<b>B- Other Long Term receivables</b>		<b>18,479</b>		<b>0</b>
1- Receivable from Shareholders	0		0	
2- Receivable from Investments	0		0	
3- Receivable from Participations	0		0	
4- Other Long Term Receivables	18,479		0	
5- Rediscount on Receivables (-)	0		0	
6- Allowance for Doubtful Receivables (-)	0		0	
<b>C- Investments</b>		<b>2,920,343</b>		<b>2,920,343</b>
1- Restricted Marketable Securities	0		0	
2- Allowance for Restricted Marketable Securities (-)	0		0	
3- Investments	0		123,523	
4- Capital Commitments to Investments (-)	0		0	
5- Allowance for Investments (-)	0		(123,523)	
6- Affiliated Companies	0		0	
7- Capital Commitments to Affiliated Companies (-)	0		0	
8- Allowance for Affiliated Companies (-)	0		0	
9- Other Investments	2,920,343		2,920,343	
<b>D- Tangible Assets</b>		<b>68,976,082</b>		<b>75,650,043</b>
1- Land	3,750,039		3,750,027	
2- Land Improvements	0		0	
3- Buildings	43,451,160		43,474,221	
4- Machinery and Equipment	186,851,935		187,508,975	
5- Motor Vehicles	4,441,731		4,422,003	
6- Furnitures and Fixtures	30,734,622		30,455,279	
7- Other Tangible Assets	77,542		77,542	
8- Accumulated Depreciation (-)	(200,564,316)		(194,139,360)	
9- Construction in Progress	0		74	
10- Advances Given For Fixed Asset Purchases	233,369		101,282	
<b>E- Intangible Assets</b>		<b>183,345</b>		<b>231,008</b>
1- Preoperating Expenses	0		0	
2- Rights	0		0	
3- Research and Development Expenses	0		0	
4- Other Intangible Assets	183,345		231,008	
5- Advances Given for Intangible Asset Purchases	0		0	
<b>F- Other Long Term Assets</b>		<b>0</b>		<b>0</b>
<b>TOTAL ASSETS</b>		<b>189,019,763</b>		<b>177,607,392</b>

## Türk Pirelli Kablo ve Sistemleri A.Ş.

### Inflation Adjusted Balance Sheets - Liabilities and Stockholders' Equity

31 December 2004 and 31 December 2003

(YTL)

	31-December-2004		31-December-2003	
<b>I- CURRENT LIABILITIES</b>		<b>67,884,400</b>		<b>58,565,392</b>
<b>A- Borrowings</b>		<b>0</b>		<b>0</b>
1- Bank Borrowings	0		0	
2- Current Portion of Long Term Bank Borrowing's	0		0	
3- Bonds	0		0	
4- Bills	0		0	
5- Other Borrowings	0		0	
<b>B- Trade Payables</b>		<b>44,212,322</b>		<b>37,617,116</b>
1- Suppliers	20,241,683		14,870,688	
2- Notes Payable	24,051,306		22,819,802	
3- Deposits and Guarantees	0		0	
4- Other Trade Payables	0		0	
5- Discount on Payables (-)	(80,667)		(73,374)	
<b>C- Other Short Term Payables</b>		<b>8,281,039</b>		<b>4,215,954</b>
1- Dividends Payable	389		837	
2- Payable to Investments	0		0	
3- Payable to Participations	0		0	
4- Accrued Expenses	6,524,836		3,191,009	
5- Taxes and Duties	1,418,280		703,511	
6- Deferred Payables to Government	0		0	
7- Other Short Term Payables	337,534		321,398	
8- Discount on Payables (-)	0		(801)	
<b>D- Advances Received</b>		<b>13,900,915</b>		<b>16,210,218</b>
<b>E- Accruals</b>		<b>1,490,124</b>		<b>522,104</b>
1- Accrual for Corporation Tax and Income Taxes	1,490,124		522,104	
2- Other Short Term Accruals	0		0	
<b>II- LONG TERM LIABILITIES</b>		<b>7,047,162</b>		<b>6,677,871</b>
<b>A- Borrowings</b>		<b>0</b>		<b>0</b>
1- Bank Borrowings	0		0	
2- Bonds	0		0	
3- Other Securities	0		0	
4- Other Borrowings	0		0	
<b>B- Trade Payables</b>		<b>0</b>		<b>0</b>
1- Suppliers	0		0	
2- Notes Payable	0		0	
3- Deposits and Guarantees	0		0	
4- Other Trade Payables	0		0	
5- Discount on Payables (-)	0		0	
<b>C- Other Long Term Payables</b>		<b>0</b>		<b>0</b>
1- Dividends Payable	0		0	
2- Payable to Investments	0		0	
3- Payable to Participations	0		0	
4- Deferred Payables to Government	0		0	
5- Other Long Term Payables	0		0	
6- Discount on Payables (-)	0		0	
<b>D- Advances Received</b>		<b>0</b>		<b>0</b>
<b>E- Accruals</b>		<b>7,047,162</b>		<b>6,677,871</b>
1- Reserve for Employee Termination Indemnity	5,978,660		5,669,000	
2- Other Long Term Accruals	1,068,502		1,008,871	
<b>III- STOCKHOLDERS' EQUITY</b>		<b>114,088,201</b>		<b>112,364,129</b>
<b>A- Share Capital</b>		<b>39,312,000</b>		<b>9,828,000</b>
<b>B- Capital Commitments (-)</b>		<b>0</b>		<b>0</b>
<b>C- Share Premium</b>		<b>0</b>		<b>108,756</b>
<b>D- Revaluation Surplus</b>		<b>0</b>		<b>0</b>
1- Revaluation Surplus on Tangible Assets	0		0	
2- Revaluation Surplus on Investments	0		0	
3- Rev. Surplus on Invest. Quoted in Ist. Stock Exch.	0		0	
<b>E- Reserves</b>		<b>114,614</b>		<b>8,314,933</b>
1- Legal Reserves	114,614		1,281,639	
2- Statutory Reserves	0		0	
3- Special Reserves	0		0	
4- General Reserves	0		7,033,294	
5- Cost Increase Fund	0		0	
6- Inc. to be Add. to Cap. from Share of Part. and Land Sal.	0		0	
7- Net Income for the Prior Period	0		0	
<b>F- Net Income for the Period</b>		<b>1,724,072</b>		<b>1,177,651</b>
<b>G- Loss for the Period (-)</b>		<b>0</b>		<b>0</b>
<b>H- Prior Year Losses (-)</b>		<b>0</b>		<b>(193,625,760)</b>
1- ..... Year Losses	0		(193,625,760)	
2- ..... Year Losses	0		0	
<b>I- Adjustment to Shareholder Capital</b>		<b>72,937,515</b>		<b>286,560,549</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>189,019,763</b>		<b>177,607,392</b>

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Inflation Adjusted Statements of Income**  
**31 December 2004 and 31 December 2003**

(YTL)

	31-December-2004	31-December-2003
<b>A- GROSS SALES</b>	<b>380,058,352</b>	<b>260,966,163</b>
1- Domestic Sales	312,600,663	184,706,516
2- Export Sales	67,178,742	75,911,193
3- Other Sales	278,947	348,454
<b>B- SALES DEDUCTIONS (-)</b>	<b>(169,173,025)</b>	<b>(81,576,705)</b>
1- Sales Returns (-)	(3,569,490)	(2,197,654)
2- Sales Discounts (-)	(165,603,535)	(79,379,051)
3- Other (-)	0	0
<b>C- NET SALES</b>	<b>210,885,327</b>	<b>179,389,458</b>
<b>D- COST OF SALES</b>	<b>(182,208,665)</b>	<b>(151,441,034)</b>
<b>GROSS MARGIN</b>	<b>28,676,662</b>	<b>27,948,424</b>
<b>E- OPERATING EXPENSES (-)</b>	<b>(26,526,589)</b>	<b>(25,386,216)</b>
1- Research and Development Expenses (-)	(867,046)	(865,337)
2- Selling and Distribution Expenses (-)	(14,138,257)	(12,893,409)
3- General and Administrative Expenses (-)	(11,521,286)	(11,627,470)
<b>OPERATING PROFIT</b>	<b>2,150,073</b>	<b>2,562,208</b>
<b>F- OTHER INCOME</b>	<b>9,868,806</b>	<b>9,155,653</b>
1- Dividend Income from Investments	588,542	0
2- Dividend Income from Participations	0	0
3- Interest and Other Dividend Income	1,628,305	1,761,485
4- Other	7,651,959	7,394,168
<b>G- OTHER EXPENSES</b>	<b>(7,260,810)</b>	<b>(8,766,585)</b>
<b>H- FINANCING EXPENSE (-)</b>	<b>(1,117,198)</b>	<b>(829,430)</b>
1- Short Term Borrowing's (-)	(1,117,198)	(829,430)
2- Long Term Borrowing's (-)	0	0
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>3,640,871</b>	<b>2,121,846</b>
<b>I- EXTRAORDINARY INCOME</b>	<b>2,686,740</b>	<b>479,372</b>
1- Reversal of Provisions	1,968,785	108,332
2- Income Related to Prior Periods	12,380	33,735
3- Other	705,575	337,305
<b>J- EXTRAORDINARY EXPENSE</b>	<b>(143,621)</b>	<b>(858,178)</b>
1- Expenses Related to Idle Time	0	0
2- Expenses Related to Prior Periods	(143,609)	(678,765)
3- Other	(12)	(179,413)
<b>K- NET MONETARY GAIN OR LOSS</b>	<b>(2,892,574)</b>	<b>(23,746)</b>
<b>INCOME BEFORE TAXES</b>	<b>3,291,416</b>	<b>1,719,294</b>
<b>L- TAXES ON INCOME</b>	<b>(1,567,344)</b>	<b>(541,643)</b>
<b>NET INCOME FOR THE YEAR</b>	<b>1,724,072</b>	<b>1,177,651</b>

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Inflation Adjusted Cash Flow Statements**  
**31 December 2004 and 31 December 2003**

(YTL)

	31-December-2004		31-December-2003	
<b>A- CASH AT THE BEGINNING OF THE PERIOD</b>		22,010,280		8,391,740
<b>B- CASH INFLOW DURING THE PERIOD</b>		218,241,498		218,954,545
<b>1- Cash Received from Sales</b>		202,374,972		202,321,841
a) Net Sales	210,885,327		179,389,458	
b) Decrease in Receivables (from sales)	0		22,932,383	
c) Increase in Receivables (-) (from sales)	(8,510,355)		0	
<b>2- Cash Received from Other Incomes and Profits</b>		9,868,806		9,155,653
<b>3- Cash Received from Extraordinary Incomes and Profits</b>		2,686,740		479,371
<b>4- Cash Received from Increases in Current Liabilities</b>		1,755,789		5,114,172
(Not related to purchases)				
a) Securities Issued	0		0	
b) From Loans	0		0	
c) Other Increases	1,755,789		5,114,172	
<b>5- Cash Received from Increases in Long Term Liabilities</b>		0		0
(not related to purchases)				
a) Securities Issued	0		0	
b) From Loans	0		0	
c) Other Increases	0		0	
<b>6- Cash Received from Capital Increase</b>		0		0
<b>7- Cash Received from Emission Premiums</b>		0		0
<b>8- Other Cash Inflow</b>		1,555,191		1,883,508
<b>C- CASH OUTFLOW DURING THE PERIOD</b>		212,248,115		205,336,005
<b>1- Cash Outflow Resulting from Sales</b>		172,846,121		164,277,875
a) Cost Of Sales	182,208,665		151,441,034	
b) Increases in Inventories	1,581,108		4,997,624	
c) Decreases in Liabilities (related to purchases)	0		12,178,123	
d) Increases in Liabilities (related to purchases) (-)	(6,602,499)		0	
e) Non-Cash Expenses such as Depreciation and Provisions (-)	(4,341,153)		(4,338,906)	
f) Decreases in Inventories (-)	0		0	
<b>2- Cash Outflow Related to Operations</b>		25,432,220		24,057,923
a) Research and Development Expenses	867,046		865,337	
b) Marketing, Sales and Distribution Expenses	14,138,257		12,893,409	
c) General Administrative Expenses	11,521,286		11,627,470	
d) Expenses Not Requiring Cash Outflow (-)	(1,094,369)		(1,328,293)	
<b>3- Cash Outflow Related to Other Expenses and Losses</b>		7,260,810		8,766,585
a) Expenses and Losses Related to Other Operations	7,260,810		8,766,585	
b) Non-Cash Expenses and Losses (-)	0		0	
<b>4- Cash Outflow Related to Financial Expenses</b>		1,117,198		829,430
<b>5- Cash Outflow Related to Extraordinary Expenditures and Losses</b>		143,621		858,177
a) Extraordinary Expenditures and Losses	143,621		858,177	
b) Non-Cash Expenses and Losses (-)	0		0	
<b>6- Cash Outflow Related to Long Term Asset Investments</b>		2,085,666		3,732,177
<b>7- Principal Payments of Short Term Debt (not related to purchases)</b>		0		724,363
a) Principal Payments of Securities	0		0	
b) Principal Payments of Loans Used	0		0	
c) Other Cash Outflow	0		724,363	
<b>8- Principal Payments of Long Term Debt (not related to purchases)</b>		0		0
a) Principal Payments of Securities	0		0	
b) Principal Payments of Loans Used	0		0	
c) Other Cash Outflow	0		0	
<b>9- Taxes Paid and Other Levies</b>		599,324		729,358
<b>10- Dividends Paid</b>		0		0
<b>11- Other Cash Outflow</b>		2,763,155		1,360,117
<b>D- CASH AT THE END OF THE PERIOD (A+B-C)</b>		28,003,663		22,010,280
<b>E- INCREASE / (DECREASE ) IN CASH (B-C)</b>		5,993,383		13,618,540

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Inflation Adjusted Statement of Cost Sales**  
**31 December 2004 and 31 December 2003**

(YTL)

	31-December-2004		31-December-2003	
<b>PRODUCTION ACTIVITIES</b>				
A- Cost Of Raw Materials Used		141,795,625		109,525,448
B- Cost Of Direct Labour		6,795,205		6,951,434
C- General Production Overheads		21,148,837		22,963,577
D- Cost Of Semi Finished Goods Used		(1,926,479)		(926,044)
1- Beginning Inventory (+)	6,779,281		5,853,237	
2- Ending Inventory (-)	(8,705,760)		(6,779,281)	
<b>COST OF FINISHED GOODS PRODUCED</b>		167,813,188		138,514,415
E- Change In Finished Goods Inventory		(487,572)		(1,251,240)
1- Beginning Inventory (+)	7,066,378		5,815,138	
2- Ending Inventory (-)	(7,553,950)		(7,066,378)	
<b>I. COST OF FINISHED GOODS SOLD</b>		167,325,616		137,263,175
<b>TRADING OPERATIONS</b>				
A- Beginning Merchandise Inventory (+)		180,081		226,344
B- Purchases During The Period (+)		1,670,649		5,634,552
C- Ending Merchandise Inventory (-)		(271,796)		(180,081)
<b>II. COST OF MERCHANDISE SOLD</b>		1,578,934		5,680,815
<b>III. COST OF SERVICES RENDERED</b>		13,304,115		8,497,044
<b>COST OF SALES (I+II+III)</b>		182,208,665		151,441,034



**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**1. Primary operations of the Company:**

The primary operation of Türk Pirelli Kablo ve Sistemleri A.Ş. ("the Company") is established in 1964 and it is producing, importing, exporting and trading of any kind of cable, conductor, machinery, apparatus and their spare parts and accessories.

**2. Shareholders with a nominal share of 5% or more of capital:**

**31 December 2004**

<b>Shareholder</b>	<b>Shareholding Percentage (%)</b>	<b>Shareholding Amount (YTL)</b>
Pirelli Cable Holding N.V	83.75	32,922,392
Siemens Sanayi ve Ticaret A.Ş. Emekli ve Yardım Sandığı Vakfı	5.54	2,179,067
Other	10.71	4,210,541
	<b>100.00</b>	<b>39,312,000</b>
Inflation adjustment		8,462,823
<b>Total</b>		<b>47,774,823</b>

**31 December 2003**

<b>Shareholder</b>	<b>Shareholding Percentage (%)</b>	<b>Shareholding Amount (YTL)</b>
Pirelli Cable Holding N.V.	83.75	8,230,598
Siemens Sanayi ve Ticaret A.Ş. Emekli ve Yardım Sandığı Vakfı	5.54	544,767
Other	10.71	1,052,635
	<b>100.00</b>	<b>9,828,000</b>
Inflation adjustment		37,946,823
<b>Total</b>		<b>47,774,823</b>

**3. Preference shares and the nature of privileges granted to such shares:**

None (2003: None).

**4. Registered share capital limit:**

As of 31 December 2004, the Company's registered share capital limit is YTL80,000,000 (2003: YTL10,000,000).

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**5. Capital increases during the period and their sources:**

Capital Increase Date	Capital Increase Amount (YTL)	Cash	Share Premium	Revaluation Surplus	Cost Increase Fund	Other
17 June 2004	29,484,000	-	-	26,058,354	2,224,719	1,200,927

The Company has increased its capital by 300% from YTL9,828,000 to YTL39,312,000. Since the increase has been sourced from revaluation surplus and cost increase fund, it has been excluded in the adjustment to shareholder capital during the inflation accounting.

**6. Marketable securities issued during the period excluding ordinary shares:**

None (2003: None).

**7. Marketable securities representing debts which matured during the period:**

None (2003: None).

**8. Movements in property, plant and equipment in the current period:**

Movements in property, plant and equipment in the current period	31 December 2004 (YTL)	31 December 2003 (YTL)
a) Total cost of property, plant and equipment purchased:	2,085,666	3,661,861
b) Total cost of property, plant and equipment sold or used as scrap:	105,875	1,544,119

Description	Beginning date	Ending date	Toplam Tutarı (YTL)	Total expenditure in the current period (TL million)	Percentage of completion (%)
Certificate no (3922)	15.02.2002	15.02.2005	3,508,003	1,569,614	45

The Company applied to the Undersecretariat Treasury for the cancellation of the Incentive Certificate No. 3263 in 2004. As of 23 August 2004 investment completion visa was prepared and cancellation of the certificate was approved by the Undersecretariat Treasury.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**9. Investment allowances to be utilised in the current and following periods:**

The amount of investment allowances utilised in the current year is YTL544,873 (2003: YTL851,672). By taking advantage of the Income Tax Law No.4842 and 5042 and the new amended regulations regarding investment allowances, capital expenditures are eligible for investment incentive allowance of 40% for certificates granted after 24 April 2003.

**10. Account balances with shareholders, affiliates, subsidiaries and group companies:**

**31 December 2004 Trade Receivables:**

	Currency	Amount	Exchange Rate	Amount (YTL)
<b>Group Companies</b>				
Pirelli Cables and Systems SA	EURO	51,687	1.8268	94,422
Pirelli Kabel und Systeme GmbH.&CO.	EURO	1,156,065	1.8268	2,111,900
Pirelli Cavi E Sistemi Energia Italia S.P.A.	USD	23,503	1.3421	31,543
Pirelli Cables Ltd.	EURO	193,905	1.8268	354,226
	USD	19,690	1.3421	26,426
Kablo Bratislava Spool	EURO	13,758	1.8268	25,133
Pirelli Cavi E Sistemi Energia S.P.A.	EURO	25,898	1.8268	47,310
Pirelli Romania Cabluri SA	EURO	211,370	1.8268	386,131
	USD	1,000	1.3421	1,342
Pirelli OekW GmbH	EURO	77,905	1.8268	142,317
Pirelli Cavi E Sistemi Telecom S.P.A.	EURO	2,076,724	1.8268	3,793,759
Pirelli Telecomunicações Brasil	USD	80,000	1.3421	107,368
Pirelli Telecom Kabel und System GmbH	EURO	300,673	1.8268	549,269
Pirelli Telecom Cables&Systems Uk Ltd.	EURO	289,276	1.8268	528,449
Pirelli Telecom Cables Y Systemas	EURO	3,050	1.8268	5,572
	USD	17,481	1.3421	23,461
Pirelli Telecom Cables Co.	EURO	914	1.8268	1,670
	USD	305	1.3421	409
<b>Total</b>				<b>8,230,707</b>

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**31 December 2003 Trade Receivables:**

	Currency	Amount	Exchange Rate	Amount (YTL)*
<b>Group Companies</b>				
Pirelli Cavi E Sistemi Energia Italia S.P.A.	EURO	177,287	1.7451	309,384
	USD	43,515	1.3958	60,738
Pirelli Romania Cabluri SA	EURO	182,115	1.7450	317,791
	USD	65,595	1.3958	91,558
Pirelli Cables Australia Ltd.	EURO	47,940	1.7451	83,660
	USD	41,800	1.3958	58,344
Pirelli Cables and Systems SA	EURO	9,778	1.7451	17,064
Kablo Bratislava Spool	EURO	2,366	1.7451	4,129
Pirelli Submarine Telecom Sys Italia S.P.A.	EURO	4,504	1.7451	7,860
Pirelli Telecom Cables Y Sistemas Espana	EURO	31,727	1.7451	55,367
	USD	48,199	1.3958	67,276
Pirelli Cavi E Sistemi Telecom S.P.A.	EURO	795,390	1.7451	1,388,035
Pirelli Cables Ltd. Hamshire	EURO	90,576	1.7451	158,064
Pirelli Finland	EURO	79,826	1.7451	139,304
Pirelli Kabel und System GmbH	EURO	127,847	1.7451	223,106
Pirelli Cables and Systems N.V.	EURO	104,359	1.7451	182,117
Pirelli Telecom Kabel und System GmbH	EURO	476,783	1.7451	832,034
Pirelli Telecom Cables Co.	EURO	1,262,336	1.7451	2,202,903
	USD	20,197	1.3958	28,191
	GBP	646	2.4766	1,600
<b>Total</b>				<b>6,228,525</b>

\* The amounts indicated in the "Amount (YTL)" column are stated in terms of purchasing power of TL at 31 December 2003 expressed in YTL for convenience. The total value of this amount in 31 December 2004 purchasing power is YTL7,090,553.

**31 December 2004 Non-Trade Receivables:**

None.

**31 December 2003 Non-Trade Receivables:**

None.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**31 December 2004 Trade Payables:**

	Currency	Amount	Exchange Rate	Amount (YTL)
<b>Group Companies</b>				
Pirelli Kabel und Systeme GmbH & Co	EURO	46,481	1.8356	85,321
Pirelli Metals Ltd.	EURO	175,986	1.8356	323,040
Pirelli Cavi E Sistemi Energia S.P.A.	YTL	712,820	1	712,820
	EURO	721,950	1.8356	1,325,211
Pirelli Cavi E Sistemi Energia Italia S.P.A.	EURO	55,499	1.8356	101,874
Pirelli Cables Systems Pte Ltd.	EURO	6,075	1.8356	11,151
	USD	4,750	1.3486	6,406
Pirelli Telecom Kabel und System GmbH	EURO	78	1.8356	143
Pirelli Cavi E Sistemi Telecom Italia S.P.A.	EURO	12,071	1.8356	22,158
Pirelli Cavi E Sistemi Telecom S.P.A.	YTL	43,956	1	43,956
Pirelli Romania Cabluri SA	EURO	28,730	1.8356	52,737
	USD	13,575	1.3486	18,307
Fibre Ottiche Fos S.P.A.	EURO	25,279	1.8356	46,402
Pirelli Telecom Cables Uk Ltd.	EURO	12,722	1.8356	23,353
	USD	37,866	1.3486	51,066
	GBP	1,214	2.5900	3,144
Türk Pirelli Lastikleri A.Ş.	YTL	51,298	1	51,298
Pirelli Tyres Ltd.	GBP	3,250	2.5900	8,418
Pirelli Telecom Cables Y Systemas	EUR	3,050	1.8356	5,599
	USD	17,481	1.3486	23,575
<b>Total</b>				<b>2,915,979</b>

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**31 December 2003 Trade Payables:**

Group Companies	Currency	Amount	Exchange Rate	Amount (YTL)*
Pirelli Energie Cables Et Systemes	EURO	20,570	1.7535	36,069
Pirelli Cavi E Sistemi Energia Italia S.P.A.	EURO	87,612	1.7535	153,628
Pirelli Romania Cabluri SA	USD	34,259	1.4026	48,052
Pirelli Cables Systems Pte Ltd.	EURO	5,344	1.7535	9,371
Çelikord A.Ş.	YTL	21,144	1	21,144
Türk Pirelli Lastikleri A.Ş.	YTL	52,791	1	52,791
Pirelli Power Systems USA	EURO	22,340	1.7535	39,173
	USD	105,316	1.4026	147,716
Pirelli OekW Gmbh	EURO	2,109	1.7535	3,698
Pirelli Cavi E Sistemi Telecom S.P.A.	YTL	156,124	1	156,124
Pirelli Cavi E Sistemi Energia S.P.A.	EURO	521,929	1.7535	915,203
	YTL	416,429	1	416,429
Pirelli Cavi E Sistemi Telecom Italia S.P.A.	EURO	5,800	1.7535	10,170
Pirelli Cables Ltd. Hamshire	GBP	15,024	2.4896	37,404
Pirelli Finland	EURO	26,602	1.7535	46,647
Fibre Ottiche Sud Fos S.P.A.	EURO	1,894	1.7535	3,321
Pirelli S.P.A.	EURO	9,664	1.7535	16,946
Pirelli Telecom Kabel und System GmbH	EURO	15,810	1.7535	27,723
Pirelli Tyres Ltd.	GBP	3,832	2.4896	9,540
<b>Total</b>				<b>2,151,149</b>

\* The amounts indicated in the "Amount (YTL)" column are stated in terms of purchasing power of TL at 31 December 2003 expressed in YTL for convenience. The total value of this amount in 31 December 2004 purchasing power is YTL2,448,868.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**31 December 2004 Non-trade Payables:**

	Currency	Amount	Exchange Rate	Amount (YTL)
<b>Shareholders</b>				
Dividends payable to other shareholders	YTL	389	1	389
<b>Total</b>	<b>YTL</b>	<b>389</b>	<b>1</b>	<b>389</b>

**31 December 2003 Non-trade Payables:**

	Currency	Amount	Exchange Rate	Amount (YTL)*
<b>Shareholders</b>				
Dividends payable to other shareholders	YTL	735	1	735
<b>Total</b>	<b>YTL</b>	<b>735</b>	<b>1</b>	<b>735</b>

\* The amounts indicated in the "Amount (YTL)" column are stated in terms of purchasing power of TL at 31 December 2003 expressed in YTL for convenience. The total value of this amount in 31 December 2004 purchasing power is YTL837.



**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**11. The method of valuation on inventories and other balance sheet items, depreciation and inventory calculation, changes in accounting policies compared to previous periods and the monetary effect of these policy changes, significant events or indicators that may affect the going concern and cut-off assumption of the Company:**

**General Principles:**

The Capital Market Board ("CMB") has set out rules and regulations relating to the preparation and presentation of financial statements and reports, by Communiqué XI/1 as amended and supplemented by other Communiqués, by the Communiqué XI/20 (effective from 1 January 2004) "Communiqué concerning the rules and regulations for the presentation and preparation of the financial statements during the high inflationary periods". All these rules and regulations will hereafter be referred to as Generally Accepted Accounting Standards issued by the CMB. Accordingly, the Company has prepared its financial statements in accordance with the Turkish Commercial Code, tax legislation and the generally accepted accounting principles issued by the CMB.

The Communiqué XI/20 issued by the CMB; "Communiqué concerning the rules and regulations for the presentation and preparation of the financial statements during the high inflationary periods" ("Inflation Communiqué"), and the Communiqué XI/21; "Communiqué concerning the rules and regulations for the preparation of the consolidated financial statements" ("Consolidation Communiqué") came into force to be effective from 31 December 2003 and will continue in the subsequent first interim financial statements. Companies whose accounting periods are ending on 31 December 2004, will prepare their financial statements in accordance with the Inflation Communiqué and Consolidation Communiqué for the first time as of 31 December 2003 and will continue in the first interim period and following periods, accordingly. The Company has implemented the Inflation Communiqué for the first time for the financial statements ending 31 December 2003 and for their opening financial statements as at 31 December 2002. Balance amounting to YTL193,625,760 remaining after the deduction of liabilities and shareholder's equity balances from the inflation adjusted assets as at 31 December 2002 has been recognised as "Previous Years' Losses" in the financial statements as at 31 December 2003. On 25 October 2004, these losses were offset against other equity items with the decision resolved by the Extraordinary Assembly of the Board (Amount expressed in terms of the purchasing power at 31 December 2003 is YTL170,085,875- balance sheet note 33 (d)).

**Principles applied at the financial statements adjusted in accordance with inflation:**

Adjustments made to financial statements for the restatement for changes in the general purchasing power of the Turkish lira at the period-end, are based on the Inflation Communiqué. These principles require that financial statements prepared in the currency of a hyperinflationary economy and financial statements prepared according to generally accepted accounting standards issued by the CMB, are stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One other characteristic that necessitates the application of this communiqué is the beginning of the hyperinflationary period in circumstances where the yearly price index at the balance sheet date exceeds the price index at the beginning of the previous three-year period (including the related period) by 100%, and the price index at the balance sheet date of the related accounting period increases by 10% or more compared to the beginning of that period.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

The indices and conversion factors used to restate these financial statements as of 31 December 2004 are as follows:

<b>Dates</b>	<b>Indices</b>	<b>Conversion Factors</b>
<b>31 December 2004</b>	<b>8,403.8</b>	<b>1.0000</b>
31 December 2003	7,382.1	1.1384
31 December 2002	6,478.8	1.2971

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date.
- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant conversion factors. Additions to property, plant and equipment in the year of acquisition are restated by applying the relevant conversion factors.
- All items in the statement of income are restated by applying the relevant conversion factors (monthly, yearly average) in order to be presented at the purchasing power of the balance sheet date.
- The effect of inflation on the net monetary asset position of the Company is included in the statement of income as gain or loss on net monetary position.

#### **Marketable securities**

Marketable securities at the balance sheet date comprise the acquisition costs and related income accruals of government bonds and reverse repurchase agreement transactions with banks.

#### **Receivables and payables**

Receivables and payables are stated at book values. The financial cost incurred both in receivables and payables are discounted by the internal rate of return of treasury bonds or by the market interest rate and related accounts are restated at the remaining value after deducting these amounts.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**Allowance for doubtful receivables**

The Company has set up provision for those doubtful receivables against which legal action has been taken. For doubtful receivables denominated in foreign currencies, accrued foreign exchange rate differences have been included in the figure for doubtful receivables, and have also been reflected on foreign exchange income. Furthermore, the Company sets up provisions for total receivables at rates that are determined by the management in line with management policy.

**Inventories**

Inventories are valued at the lower of cost or net realizable value. The production cost system is determined on a process costing basis and the monthly weighted average method is applied. Physical stock counts are performed quarterly. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories are adjusted for inflation at balance sheet dates.

The percentage of completion method is used for contract work in progress. The costs and the progress payments related with the projects are not shown in the income statement until the end of the contract. Therefore, costs related with projects are recorded as "order advances given" under inventories and the progress payments are recorded as "order advances received" under liabilities.

**Long-term financial assets**

For the purpose of these financial statements, shareholders of the Company and/or Group companies having a direct or indirect management or shareholding relationship that is more than or equal to 50% are considered as subsidiaries, and those with a share of 20% - 50% are considered as investments. Investments under 20% are stated as long term financial assets.

Long-term financial assets are stated at acquisition cost plus the nominal value of bonus shares received from these companies. The nominal value of bonus shares received is included in the revaluation reserve. Dividend income from subsidiaries and investments is accrued following the profit distribution declarations made by these companies.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

### Property, plant and equipment and intangibles

Property, plant and equipment and intangible assets are carried at cost less accumulated depreciation in each case restated to equivalent purchasing power at 31 December 2003 in line with article 11 of the Inflation Communiqué. Depreciation and amortization are provided retroactively on the restated amounts of property, plant and equipment and intangible assets on a straight-line basis.

Depreciation is based on the following percentages:

	<u>Economic life</u>	<u>Method</u>
Buildings	20-50 years	Straight line depreciation
Machinery and equipments	5-15 years	Straight line depreciation
Vehicles	5 years	Straight line depreciation
Furniture and fixtures	2-5 years	Straight line depreciation
Special costs	5-10 years	Straight line depreciation
Rights	8-20 years	Straight line depreciation

### Repair and maintenance expenses

Fixed asset repair and maintenance expenses are included in the general and overhead expenses. However, repair and maintenance expenses, which improve the condition of assets and therefore lengthen their useful lives, are added to the cost of the assets.

### Foreign currency transactions

Transactions in foreign currencies are translated into Turkish Lira at the exchange rates prevailing at the dates of such transactions. Assets denominated in foreign currencies are translated at the bid exchange rates of the Central Bank of Turkey prevailing at the balance sheet dates. Liabilities denominated in foreign currencies are translated at the ask exchange rates of the Central Bank of Turkey prevailing at the balance sheet dates. Foreign exchange gains or losses arising from settlement and translation of foreign currency items are included in the related income and expense accounts, as appropriate.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Balance Sheet**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

### **Taxation on income**

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

Corporation tax is payable at a rate of 33% on the total income of the Company and its Subsidiaries registered in Turkey after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed. Corporation tax rate on the total income of fiscal year 2005 will be 30%.

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published in the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers are required to prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish lira.

Corporate taxpayers are obliged to prepare the opening balance sheets restated for inflation at 31 December 2003. Corporate taxpayers are required to submit their opening balance sheets restated for inflation at 31 December 2003 in accordance with the General Communiqué on Tax Procedure Law No: 328 ("Communiqué") dated 28 February 2004 and declare the advance corporation tax for the third quarter of 2004 in accordance with the Tax Law No: 5024 and the General Communiqué on Tax Procedure Law No: 338 dated 13 August 2004. The Company prepared its opening balance sheet at 1 January 2004 and its balance sheet at 31 December 2004 in accordance with Tax Law No: 5024 and Communiqué No: 328 and 338.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 33% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable held for not less than two years are tax exempt until 31 December 2004, if such gains are added to paid-in capital in the year in which they are sold.

Capital expenditures, with some exceptions, over TL6 billion are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowances utilized within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

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Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 15th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Under these principles, tax provisions presented under short-term accrued liabilities amounts to YTL1,490,124 (2003: YTL522,104) and are reflected to the accompanying income statement with its inflation adjusted value.

#### **Provision for employment termination benefits**

Employment termination benefits, as required by the Turkish Labour Law, are recognised in the accompanying financial statements as they are earned. In accordance with existing social legislation in Turkey, the Company is required to pay lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated without due cause and who retires. Such payments are calculated on the basis of 30 days pay limited to YTL1,574.74 (2003: YTL 1,389.95) per year of employment at the rate or pay applicable at the date of retirement or termination. The Company has set up a provision for employee termination benefits amounting to YTL5,978,660 (2003: YTL5,669,000) as at 31 December 2004.

#### **Revenues and expenses recognition**

Revenues and expenses are recognised on an accrual basis. The percentage of completion method is used for contract work in progress. The costs and the progress payments related with the projects are not shown in the income statement until the end of the contract. Therefore, costs related to projects are recorded to "order advances given" under inventories and the progress payments are recorded to "order advances received" under liabilities.

#### **Other balance sheet items**

Other balance sheet items are stated at historical values in the financial statements.



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**12. Subsequent events:**

a) Effective from 1 January 2005, employment termination benefit ceiling is raised to YTL1,648.90. The effect of this increase in the provision for employee termination benefit account is an increase of YTL. (Effective from 1 January 2004 the legal limit for employment termination benefit ceiling was increased to YTL1,485.43. The effect of this increase in the provision for employee termination benefit account was an increase of YTL327,491 with the purchasing power at 31 December 2003).

b) Through the enactment of the Law numbered 5083 concerning the "Currency of the Republic of Turkey" in the Official Gazette dated 30 January 2004, New Turkish Lira ("YTL") and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The hundredth part of the YTL is the YKr. When the prior currency, Turkish Lira ("TL"), values are converted into the YTL, one million TL (1,000,000 TL) shall be equivalent to one YTL (1 YTL). Accordingly, currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL.

All references made to Turkish Lira or Lira in laws, other legislation, administrative transactions, court decisions, legal transactions, negotiable instruments and other documents that produce legal effects as well as payment and exchange instruments shall be considered to have been made to YTL at the conversion rate indicated as above. Consequently, effective from 1 January 2005, the YTL replaces the TL as a unit of account in keeping and presenting the books, accounts and financial statements.

**13. Contingent losses and gains:**

None (2003: None).

**14. Changes in accounting estimates which may have a material effect on the profitability ratios and the monetary value of such effects:**

None (2003: None).

**15. Mortgages or restrictions on assets:**

None (2003: None).

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**16. Total insurance coverage on assets:**

Total insurance coverage on assets as at 31 December 2004 is YTL229,654,491 (2003: YTL215,248,979).

**17. Total guarantees and mortgages received as guarantees for receivables:**

The total amount of letters of guarantee, promissory notes, checks, mortgages and securities received for short-term receivables and order advances given as of 31 December 2004 is YTL17,781,386 (2003: YTL29,931,446) .

**18. Commitments and contingent liabilities:**

The breakdown of commitments and contingent liabilities is as follows:

	31 December 2004 (YTL)	31 December 2003 (YTL)
Letter of guarantees given	15,007,725	20,715,069
Guarantees and bails given	_____ -	_____ -
<b>Total</b>	<b><u>15.007.725</u></b>	<b><u>20.715.069</u></b>

**19. Blocked deposits at banks:**

None (2003: None).

**20. Market value of marketable securities and financial assets carried at cost and carrying value of marketable securities and financial assets shown at market value:**

The market value of the investments included in the long-term assets of the Company could not be assessed due to the fact that the shares are not traded on the Istanbul Stock Exchange. The historic cost of long-term financial assets excluding any increase through revaluation fund are adjusted for inflation at balance sheet dates.

**21. Marketable securities issued by shareholders, affiliates, subsidiaries:**

None (2003: None).

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**22. Details of the “other” items in balance sheet which exceed 20% of the respective component or 5% of the total assets:**

Balance Sheet Caption	31 December 2004 (YTL)	31 December 2003 (YTL)
<b>Other Short Term Receivables</b>	<b>6,125,770</b>	<b>7,230,249</b>
<b>Short Term Other Receivables</b>		
Other doubtful receivables	3,471,311	4,107,176
VAT receivable (export)	1,580,525	1,052,093
VAT receivable (direct export)	927,571	2,011,635
Receivables from personnel	73,935	30,243
Job advances	45,000	13,575
Other non-trade receivables	27,428	15,527
<b>Other Current Assets</b>	<b>1,600,439</b>	<b>3,155,630</b>
Prepaid taxes	1,330,916	2,133,126
Prepaid expenses	259,779	271,046
VAT to be deducted	8,956	747,076
Miscellaneous current assets	788	4,382
<b>Other Long Term Receivables</b>	<b>18,479</b>	<b>-</b>
<b>Long Term Other Receivables</b>		
Prepaid expenses	18,479	-
<b>Investments</b>	<b>2,920,343</b>	<b>2,920,343</b>
<b>Other investments</b>		
Investment (Entek A.Ş.)	2,920,343	2,920,343
<b>Intangible Assets</b>	<b>183,345</b>	<b>231,008</b>
<b>Other Intangible Assets</b>		
SAP software and related amortisation	183,345	231,008
<b>Other Short Term Payables</b>	<b>1,418,280</b>	<b>703,511</b>
<b>Taxes and Duties</b>		
Taxes and funds payable	1,141,346	453,899
Social security premiums payable	276,934	249,612
<b>Income And Gains From Other Operating Activities</b>	<b>7,651,959</b>	<b>7,394,168</b>
<b>Other Income</b>		
Foreign exchange income	3,767,692	4,133,668
Raw materials sales income	3,292,243	2,831,765
Other income	592,024	428,735
<b>Expense And Losses From Other Operating Activities</b>	<b>7,260,810</b>	<b>8,766,585</b>
Foreign exchange loss	4,337,700	2,924,604
Scrap sales loss	1,766,319	1,700,048
Cost of raw materials sold	818,481	1,119,408
Export expenses	211,642	193,824
Restructuring expenses	-	2,372,549
Other ordinary expenses	126,668	456,152
<b>Extraordinary Income</b>	<b>705,575</b>	<b>337,305</b>
<b>Other Extraordinary Income</b>		
Fixed asset sales income	279,874	326,503
Stock count differences	53,554	-
Other extraordinary income and gains	372,147	8,938
Income from insurance claims	-	1,864

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Balance Sheet Caption	31 December 2004 (YTL)	31 December 2003 (YTL)
<b>Extraordinary Expense And Losses</b>		
<b>Other Extraordinary Expense And Losses</b>	12	179,413
Other extraordinary expense and losses	12	1,004
Stock count differences	0	5,239
Other extraordinary expense and losses (Tax Funds)	0	173,170

**23. Receivables from and payables to personel included under other receivables and other long-term or short-term liabilities accounts and exceeding 1% of total assets:**

None (2003: None).

**24. Doubtful receivables due from shareholders, affiliates and subsidiaries:**

None (2003: None).

**25. Provisions for doubtful receivables for overdue and non-overdue receivables:**

The total provision for overdue and non-overdue receivables amounts to YTL15,046,744 (2003: YTL19,799,262). YTL13,625,217 (2003: YTL16,005,517) out of this amount is legal doubtful receivable provision and the remaining amount of YTL1,421,527 (2003: YTL3,793,745) is general doubtful receivable provision.

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**26. The breakdown of affiliates and subsidiaries having an indirect shareholding and management relationship with the Company and the participation rates and amounts of these affiliates and subsidiaries:**

**31 December 2004:**

Other Long Term Financial Asset	Capital	Currency	Share	Investment Amount (YTL)
Entek A.Ş.	98,918,756	YTL	3.81%	3,768,000

**31 December 2003:**

Other Long Term Financial Asset	Capital	Currency	Share	Investment Amount (YTL)
Entek A.Ş.	94,200,000	YTL	4.00%	3,768,000
Anadolu Bakır Metal San. ve Tic. A.Ş.	100,000	YTL	20%	20,000
Anadolu Bak. (Provision for diminishing in value)	100,000	YTL	20%	(20,000)

Since share capital increase of Entek A.Ş. is due to addition of revaluation increase fund to share capital, the inflation adjustment has been made by excluding the revaluation increase fund. After the restatement the inflation adjusted carrying value of Entek A.Ş. amounted to YTL2,920,343 (2003: YTL2,920,343).

**31 December 2004:**

Other Long Term Financial Assets	Date Of Financial Statements	Gross Income / (Loss) (YTL)	Net Income / (Loss) (YTL)	Compliance with CMB Standarts	Audited or Not	Opinion On Audit Report
Entek A.Ş.	30/09/2004	12,103,648	10,498,288	IFRS	Yes	Unqualified

**31 December 2003:**

Other Long Term Financial Assets	Date Of Financial Statements	Gross Income / (Loss) (YTL)	Net Income / (Loss) (YTL)	Compliance with CMB Standarts	Audited or Not	Opinion On Audit Report
Entek A.Ş.	30/09/2003	20,589,633	16,710,384	Not suitable	No	-

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Entek Elektrik Üretim A.Ş., which is classified under the financial assets of the Company, resolved in the extraordinary board meeting on 29 December 2004 to merge all assets and liabilities of İztek Elektrik Üretim A.Ş. under the structure of Entek Elektrik Üretim A.Ş. This decision was registered on 31 December 2004. Due to this merger, the capital of Entek A.Ş. reached YTL98,918,756 by an increase of YTL4,718,756 resulting from the basis-to-merger equities of the shareholders other than Entek of İztek Elektrik Üretim A.Ş.

In addition, as a result of the decision of the Istanbul Sixth Commercial Court of the First Instance, shares of Anadolu Bakır Metal San. ve Tic. A.Ş. has been transferred to the defendant. The transfer price of USD200,000 (equivalent to YTL371,000) was collected from the defendant and was included in the financial statements. As the defendant went to the appeal court, the Company provided a provision of YTL371,000 and this amount was taken into consideration in the tax provision account.

**27. Bonus shares received from affiliates and subsidiaries obtained through internally funded capital increases of investments and associates:**

None (2003: Entek A.Ş. has increased its capital and the inflation adjusted carrying value of Entek A.Ş. amounted to YTL3,454,000).

**28. Rights on immovable and their value:**

None (2003: None).

**29. Revaluation of fixed assets in the last three years:**

With the application of Inflation Communiqué, the revaluation funds, resulting from inflation, have been eliminated in the restatement process. The last three years' revaluation fund is presented below:

Year	Revaluation on fixed assets (YTL)	Revaluation on accumulated depreciation (YTL)	Revaluation on net book value (YTL)
December 2003	15,534,137	8,108,927	7,425,210
December 2002	21,276,259	10,449,905	10,826,354
December 2001	12,941,302	5,971,987	6,969,315



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**30. Receivables and payables denominated in foreign currency having no foreign exchange rate guarantees; foreign currency denominated assets and rates applied at balance sheet date:**

<b>ASSETS:</b>							
	Currency	31 December 2004			31 December 2003		
		Exchange Rate	Amount in Original Currency	Amount (YTL)	Exchange Rate	Amount in Original Currency	Amount (YTL)*
<b>Cash</b>							
	EURO	1.8268	3,399	6,209	1.7451	2,495	4,354
	USD	1.3421	3,337	4,479	1.3958	59	82
<b>Banks</b>							
	USD	1.3421	17,728	23,793	1.3958	2,228,441	3,110,536
	EURO	1.8268	1,858	3,395	1.7451	5,484,220	9,570,359
<b>Trade Receivables</b>							
Customers	USD	1.3421	4,522,723	6,069,947	1.3958	8,436,039	11,775,318
	EURO	1.8268	6,147,841	11,230,876	1.7451	3,659,844	6,386,691
	GBP	-	-	-	2.4766	647	1,602
Notes Receivables	USD	1.3421	491,355	659,447	1.3958	97,373	135,917
	EURO	1.8268	122,285	223,390	1.7451	38,440	67,081
Deposits and Guarantees Given	USD	-	-	-	1.3958	500	698
Doubtful Receivables	USD	1.3421	9,263,333	12,432,320	1.3958	9,293,159	12,971,717
	EURO	1.8268	333,411	609,076	1.7451	333,411	581,826
<b>Non-Trade Receivables</b>							
Other Non-Trade Receivables	USD	1.3421	6	8	-	-	-
	EURO	1.8268	4,060	7,417	1.7451	4,073	7,108
	CHF	1.1806	321	379	-	-	-
<b>Other Assets</b>							
Receivables From Personnel	USD	1.3421	40	54	1.3958	2,000	2,792
Advances Given	EURO	1.8268	576,117	1,052,450	1.7451	144,907	252,873
	USD	1.3421	379,287	509,041	1.3958	128,659	179,587
	GBP	2.5765	1,214	3,129	-	-	-
<b>Total Foreign Currency Denominated Assets</b>				<b>32,835,410</b>			<b>45,048,541</b>

\* The amounts indicated in the "Amount (YTL)" column are stated in terms of purchasing power of TL at 31 December 2003 expressed in YTL for convenience. The total value of this amount in 31 December 2004 purchasing power is YTL51,283,259.

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<b>LIABILITIES:</b>							
	Currency	31 December 2004			31 December 2003		
		Exchange Rate	Amount in Original Currency	Amount (YTL)	Exchange Rate	Amount in Original Currency	Amount (YTL)*
Suppliers	EURO	1.8356	1,698,620	3,117,988	1.7535	1,907,854	3,345,401
	USD	1.3486	8,153,592	10,995,934	1.4026	2,975,505	4,173,345
	GBP	2.5900	1,498	3,880	2.4896	29,075	72,384
	CHF	1.1882	450	534	1.1239	38,500	43,272
Policies Given to Suppliers	EURO	1.8356	4,810,000	8,829,236	1.7535	4,577,440	6,420,166
	USD	1.3486	11,120,544	14,997,166	1.4026	7,447,913	13,059,834
Checks Given to Suppliers	USD	1.3486	166,141	224,057	1.4026	327,020	458,667
Advances Received	USD	1.3486	1,631,485	2,200,220	1.4026	94,048	131,909
	EURO	1.8356	17,630	32,361	1.7535	48,440	84,939
<b>Other Liabilities</b>							
Expense Accruals	USD	1.3486	733,057	988,601	1.4026	225,209	315,871
	EURO	1.8356	264,962	486,364	1.7535	40,818	71,574
	GBP	2.5900	3,250	8,417	-	-	-
Guarantee Provisions	USD	1.3486	195,744	263,981	1.4026	234,024	328,234
<b>Total Foreign Currency Denominated Liabilities</b>				<b>42,148,739</b>			<b>28,505,596</b>

\* The amounts indicated in the "Amount (YTL)" column are stated in terms of purchasing power of TL at 31 December 2003 expressed in YTL for convenience. The total value of this amount in 31 December 2004 purchasing power is YTL32,450,770.

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**31. Mortgages, endorsements and other guarantees given on behalf of shareholders, affiliates and subsidiaries:**

None (2003: None).

**32. Average number of personnel working during the period:**

**31 December 2004**

Personnel	Member of Union	Name of Union	Not Member of Union
Blue Colour	224	Birleşik Metal İş Sendikası	16
White Colour	-	-	75
<b>Total</b>	<b>224</b>		<b>91</b>

**31 December 2003**

Personnel	Member of Union	Name of Union	Not Member of Union
Blue Colour	220	Birleşik Metal İş Sendikası	-
White Colour	-	-	75
<b>Total</b>	<b>220</b>		<b>75</b>

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**33. Other matters that may have a material effect on, or prevent the clear understanding of the financial statements:**

a) After the inflation adjustment as of 31 December 2004, "Order Advances Given" includes the costs amounting YTL7,833,414 (2003: YTL11,467,214), "Order Advances Taken" includes progress payments amounting to YTL11,126,238 (2003: YTL15,882,715). The costs and the progress payments related with the projects are not shown in the income statement until the project is completed.

b) The CMB's Communiqué XI/20 "communiqué concerning the rules and regulations for the presentation and preparation of the financial statements during high inflationary periods" ("Inflation Communiqué") has been effective commencing from 1 January 2003. Besides, the Company has prepared its financial statements in accordance with the Inflation Communiqué for the first time during the period between 1 January - 31 December 2003.

The Company has not prepared and communicated its financial statements on historic cost basis, in accordance with the declarations number MSD-10/312-8975 and MSD-10/303-9009 of CMB dated 27 April 2004 and declaration number 1575 of Istanbul Stock Exchange dated 28 April 2004.

c) The Company has prepared its financial statements including the prior period financial statements in New Turkish Lira (YTL) in accordance with the declaration number MSD-10/832-43399 of CMB dated 1 December 2004 and number 1800 dated 1 December 2004. Decimals over Ykr50 have been rounded to YTL1 and decimals under Ykr50 has been rounded to zero.

d) With the Extraordinary Assembly of the Board decision on 25 October 2004, Previous Year Losses amounting to YTL170,085,875 were offset against other equity items as follows:

		<b>Amount (YTL)</b>
<b>Net Distributable Income For The Year</b>		<b>919,865</b>
-Net Income For The Year	1,034,479	
-1. Legal Reserves	(114,614)	
<b>Extraordinary Reserves</b>		<b>7,033,294</b>
<b>Legal Reserves</b>		<b>1,281,639</b>
<b>Share Premium</b>		<b>108,756</b>
<b>Adjustment to Share Capital</b>		<b>160,742,321</b>
-Extraordinary Reserves	160,742,321	
<b>Accumulated Loss</b>		<b>(170,085,875)</b>

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e) The sources of "Adjustment to Share Capital" as of 31 December 2004 and 31 December 2003 are explained below:

<b>31 December 2004</b>	<b><u>Historical Values</u></b>	<b><u>Restated Values</u></b>	<b><u>Adjustment to Share Capital</u></b>
Share Capital	39,312,000	47,774,823	8,462,823
Legal Reserves	114,614	130,477	15,863
Share Capital Inflation Adjustment	-	64,458,829	64,458,829
	<b><u>39,426,614</u></b>	<b><u>112,364,129</u></b>	<b><u>72,937,515</u></b>

(\*) The Company has offset the Previous Year Losses against other equity accounts in its inflation adjusted financial statements as indicated in balance sheet note 33/d. After the offset of the historic values of the other equity accounts, remaining inflation adjustment balances amounting to YTL64,458,829 has been represented as Share Capital Inflation Adjustment.

<b>31 December 2003</b>	<b><u>Historical Values</u></b>	<b><u>Restated Values</u></b>	<b><u>Adjustment to Share Capital</u></b>
Share Capital	9,828,000	47,774,823	37,946,823
Share Premium	108,756	232,690	123,934
Legal Reserves	1,281,639	41,448,536	40,166,897
Extraordinary Reserves	7,033,294	215,356,189	208,322,895
	<b><u>18,251,689</u></b>	<b><u>304,812,238</u></b>	<b><u>286,560,549</u></b>

**34- Explanation added for convenience translation into English:**

As indicated in Note 11, the accompanying financial statements are prepared and presented in accordance with the accounting and reporting principles issued by the Turkish Capital Market Board, which differ from the accounting principles generally accepted in the countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). The effects of such differences have not been quantified. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in the financial position and cash flows in accordance with the accounting principles generally accepted in such countries and the IFRS.

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**1. Depreciation expenses and redemption and depletion allowances for the period:**

	31 December 2004 (YTL)	31 December 2003 (YTL)
A) Depreciation Expenses	8,666,938	9,541,638
Normal Depreciation Expense	8,666,938	9,541,638
B) Amortisation	47,470	56,577
<b>Total</b>	<b>8,714,408</b>	<b>9,598,215</b>

**2. Rediscount and provision expenses for the period:**

	31 December 2004 (YTL)	31 December 2003 (YTL)
Employment Termination Benefit Provision Expenses	998,864	1,165,010
Other Provision Expenses (Balance Sheet note 26)	371,000	-
Provision for Diminution in Value of Stocks	241,810	181,156
Rediscount Expenses	164,532	438,945
Bad Debt Expenses	20,246	1,673,077
Provision Expense for Disabled Workers	-	501,944
Guarantee Provision Expense	-	145,518
Restructuring Provision Expense	-	141,689
<b>Total</b>	<b>1,796,452</b>	<b>4,247,339</b>



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*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**3. Financial expenses for the period:**

31 December 2004	Foreign Exchange (YTL)	Financial Expense (YTL)	Total (YTL)
<b>A) Included in Production Cost</b>	-	-	-
Aa) Included in Cost of Goods Sold	-	-	-
Ab) Included in Stocks on Hand	-	-	-
<b>B) Included in Non-Current Assests</b>	-	-	-
Ba) Included in Fixed Assets	-	-	-
Bb) Included in Financial Assets	-	-	-
<b>C) Directly Expensed</b>	887,855	229,343	1,117,198
<b>Total</b>	<b>887,855</b>	<b>229,343</b>	<b>1,117,198</b>

31 December 2003	Foreign Exchange (YTL)	Financial Expense (YTL)	Total (YTL)
<b>A) Included in Production Cost</b>	-	-	-
Aa) Included in Cost of Goods Sold	-	-	-
Ab) Included in Stocks on Hand	-	-	-
<b>B) Included in Non-Current Assests</b>	-	-	-
Ba) Included in Fixed Assets	-	-	-
Bb) Included in Financial Assets	-	-	-
<b>C) Directly Expensed</b>	703,795	125,635	829,430
<b>Total</b>	<b>703,795</b>	<b>125,635</b>	<b>829,430</b>

**4. Amounts of financial expenses related to shareholders, affiliates, subsidiaries and other related parties:**

None (2003: None).

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Income Statements**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**5. Sales to and purchase from shareholders affiliates and subsidiaries:**

**31 December 2004**

Group Companies	Purchases (YTL)	Share in Total (%)	Sales (YTL)	Share in Total (%)
Pirelli Cavi E Sistemi Telecom Italia S.P.A.	217,466	4	10,123,368	36
Pirelli Romania Cabluri SA	264,517	5	1,081,121	4
Pirelli OekW GmbH	-	-	660,902	2
Fibre Ottiche Sud Fos S.P.A.	353,761	7	-	-
Pirelli Metals Limited	1,785,848	34	-	-
Çelikord A.Ş.	65,751	1	-	-
Türk Pirelli Lastikleri A.Ş.	142,109	2	43,086	0
Pirelli Cables and Systems N.V.	-	-	873,765	3
Pirelli Cables and Systems S.A.Switzerland	-	-	96,845	0
Pirelli Cables Ltd. Hamshire	26,946	1	4,601,465	16
Pirelli Cables Ltd. Hamshire England	-	-	1,660,532	6
Pirelli Cables Ltd. Merseyside	-	-	13,514	0
Pirelli Energie Cables Et Systemes	177,329	3	-	-
Pirelli Cavi E Sistemi Energia Milano	-	-	22,765	0
MKM Magyar Kabel Müvek	-	-	1,576,258	6
Pirelli Cables and Systeme OY	-	-	22,676	0
Pirelli Telecom Cables Y Sistemas Espana	-	-	34,555	0
Pirelli Cables Y Sistemas Energia S.A.Espana	-	-	3,462	0
Pirelli Cavi E Sistemi Energia Italia S.P.A.	2,088,958	39	967,190	3
Pirelli Kabel und System Berlin	147,387	3	2,488,302	9
Pirelli Telekom Kabel und Sys.GmbH	-	-	4,091,620	15
Pirelli Cables Indonesia	53,540	1	-	-
Kablo Bratislava Slovakia	-	-	25,778	0
Pirelli Telecom Cables CO China.	-	-	1,755	0
<b>Total</b>	<b>5,323,612</b>	<b>100</b>	<b>28,388,959</b>	<b>100</b>

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Income Statements**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**31 December 2003**

Group Companies	Purchases (YTL)	Share in Total (%)	Sales (YTL)	Share in Total (%)
Pirelli Cavi E Sistemi Telecom S.P.A.	822,731	6	15,708,496	32
Pirelli Romania Cabluri SA	1,030,874	7	461,322	1
Pirelli OekW GmbH	4,230	0.1	-	-
Pirelli Energia Cabos E Sistemi	100,086	1	-	-
Fibre Ottiche Sud Fos S.P.A	587,207	4	-	-
Pirelli Societe Per Azioni	24,905	0.2	-	-
Çelikord A.Ş.	83,573	1	10,807	0.25
Pirelli Cables and Systems N.V.	-	-	1,884,993	4
Pirelli Cables and Systems Dietikon	-	-	29,997	0.50
Pirelli Cable Systems Pte Ltd.	10,095	0.1	-	-
Pirelli Cables Ltd.	11,940	0.1	-	-
Pirelli Metals Ltd.	-	-	1,643,574	3
Pirelli Cavi E Sistemi Energia	43,548	0.3	-	-
Pirelli Societe Generale	7,347,785	51	3,146,519	6
Pirelli Cables Ltd. Hamshire	18,309	0.1	-	-
Pirelli Telecom Cables & Sys.Hamshire	126,532	1	1,843,978	4
Pirelli Tyres Ltd.	-	-	15,306,659	31
Pirelli Energia Cables & System	10,968	0.1	-	-
Türk Pirelli Lastikleri A.Ş.	151,906	1	-	-
MKM Magyar Kabel Müvek	1,277,433	9	-	-
Pirelli Cables and Systeme OY	2,171,248	15	3,404,037	7
Pirelli Telecom Cables Y Sistemas Espana	-	-	521,058	1
Pirelli Cavi E Sistemi Energia Italia S.P.A.	-	-	9,948	0.25
Pirelli Kabel und System Berlin	137,984	1	-	-
Pirelli Telecom Kabel und Sys.Berlin	-	-	1,589,345	3
Pirelli Power Cables and Sys.Aust.	148,762	1	2,408,122	5
Kablo Bratislava Spool	71,981	2	1,003,570	2
<b>Total</b>	<b>14,182,097</b>	<b>100</b>	<b>48,972,425</b>	<b>100</b>

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Income Statements**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**6. Interest, rent and other charges paid to and received from shareholders, affiliates, subsidiaries:**

None (2003: None).

**7. Total salaries and benefits paid to the members of the Board of Directors, General Manager, General Coordinator, Assistant General Manager and other executive management:**

The benefits and salaries to the mentioned managers amount to YTL286,520 (2003: YTL249,423).

**8. Changes in the depreciation calculation method and their effect on the depreciation expenses for the period**

None (2003: None).

**9. Inventory costing method and procedures:**

The cost of inventories is determined on process costing. The FIFO method is used as at 31 December 2004.

**10. Reasons for non-performance of stock count procedures:**

Physical stock counts were performed as at 31 December 2004 and 2003.

**11. Product, scrap and service sales in domestic and export sales accounts exceeding 20% of total sales:**

	Description	31.12.2004 Amount (YTL)	Percentage in Gross Sales (%)	31.12.2003 Amount (YTL)	Percentage in Gross Sales (%)
Product	Telecommunication Cables	28,159,947	7	39,088,939	15
Product	Energy Cables	159,793,242	42	133,611,662	52
Product	Fiber Cables	19,780,636	5	3,488,483	1
<b>Total</b>		<b>207,733,825</b>		<b>176,189,084</b>	

**12. Sales incentives and subsidies:**

None (2003: None).

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Income Statements**  
**At 1 January - 31 December 2004**

*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**13. Income and expenses related to prior years:**

31 December 2004	Description	Amount (YTL)
<b>1) Prior Period Income and Gains</b>		<b>12,380</b>
1a) Error	-	-
1b) Forgotten	-	-
1c) Other	Vehicle tax returns	187
	Correction of corporate tax provision for 2002	7,664
	Policy return	1,698
	Reversal of 2003 accruals	2,624
	Reconciliation differences for 2003	207
<b>2) Prior Period Expense and Losses</b>		<b>143,609</b>
2a) Error	-	-
2b) Forgotten	-	-
2c) Other	Correction of corporate tax provision for 2003	130,899
	Previous period invoices	12,710

31 December 2003	Description	Amount (YTL)
<b>1) Prior Period Income and Gains</b>		<b>33,735</b>
1a) Error	-	-
1b) Forgotten	-	-
1c) Other	Income from tax claims	16,211
	Stamp Tax Refund	11,239
	Policy return	6,285
<b>2) Prior Period Expense and Losses</b>		<b>678,765</b>
2a) Error	-	-
2b) Forgotten	-	-
2c) Other	Correction of corporate tax provision for 2002	532,786
	Correction of corporate tax provision for 2001	119,788
	Previous period invoices	26,191

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**Footnotes to Inflation Adjusted Income Statements**  
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*Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of Turkish Lira (TL) at 31 December 2004*

**14. Profit per share and profit distribution per share:**

As of 31 December 2004 profit per share at cost of YTL1 over net profit for the period is Ykr4,386.

**15. Changes in quantity of good produced and services to be provided during the period:**

	<u>Unit</u>	<u>31 December 2004</u>	<u>31 December 2003</u>	<u>Variance %</u>
Communications cables prod.	Core-Km.	1,531,533	1,976,110	(22)
Energy cables production	Cable-Ton	38,801	30,233	28
Fiber optic cables	Faser-Km	14,596	13,266	10

**16. Changes in quantity of goods sold and services to be provided during the period:**

	<u>Unit</u>	<u>31 December 2004</u>	<u>31 December 2003</u>	<u>Variance %</u>
Communications cables	Core-Km.	1,539,452	1,884,722	(18)
Energy cables	Cable-Ton	37,805	30,422	24
Fiber optic cables	Faser-Km	83,165	8,918	833



## **Türk Pirelli Kablo ve Sistemleri A.Ş.**

### **CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

#### **1- Observance Declaration Regarding Corporate Governance Principles:**

With its 40 years of experience in Turkey, Türk Pirelli Kablo ve Sistemleri A.Ş. is one of the prominent and most experienced companies in its sector. As from its establishment, together with its Board of Directors and Executive Management, it has adopted the corporate structure and governance principles in its relations with the company shareholders, and with other relevant parties and its personnel.

The established structure of the company and its management style are in compliance with the general outlines of the Capital Market Board - Corporate Governance Principles indicated in the Capital Market Board decision dated July 4, 2003 and No. 35/835.

Moreover, since Türk Pirelli Kablo ve Sistemleri A.Ş. is within the Pirelli Group which has a world-wide network system and company activities, it is subject to the corporate governance principles of the Pirelli Group.

The company carries out its activities by always taking into consideration its social responsibilities as regards its relations with the public and its customers and suppliers. In a way closely tied to the ethical values of the business world, the company furthers its improvement studies and activities in this respect.

**Governance Structure:** Taking into consideration the main parts of the Corporate Governance Principles indicated by the Capital Market Board, the works carried out by the company as regards compliance with the Corporate Governance Principles, and the company's efforts and applications are as follows :

#### **PART (1)- SHAREHOLDERS**

##### **2- Unit for the relations with the shareholders**

For the time being, the company has not established a "Shareholders Relations Department" due to its size and also due to the fact that the shares presented to the public are at a low level. However, the duties and responsibilities of the "Shareholders Relations Department" are undertaken by the "Public Relations Department".

##### **3- Use of the right of obtaining information by the shareholders**

We received some requests from the shareholders as regards information about the place and time of the capital increase and about how to use the 2004 dividend coupons. Since such requests were made in general on the phone, the information requests and the responses given to such requests could not be followed statistically.

In its relations with the shareholders and in general in its relations with the finance community, being conscious of the mutual roles, the company spends efforts all the time to have an active and transparent dialogue with its shareholders and corporate investors.

As regards their requests for information, investors may call the following e-mail address, telephone and fax numbers :

E-mail : [tpks@pirelli.com](mailto:tpks@pirelli.com); Telephone No. : (0212) 355 15 00; Fax No. : (0212) 217 58 84.

In the Company Statutes, there is no reference permission for the appointment of a special auditor.

## **Türk Pirelli Kablo ve Sistemleri A.Ş.**

### **CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

#### **4- Information about the General Assembly**

The General Assembly meets as an Ordinary and as an Extra-ordinary General Assembly. The Ordinary General Assembly may take place in the Company Head Office or in Istanbul within a period of 3 months following the company's accounting period.

The shareholders are invited to the General Assembly by indicating the place, the time and the agenda of the meeting, and also by advertisement. The invitation is effected at least 14 days before the meeting. The date of the invitation and the date of the meeting are not included in these 14 days. The invitation is sent to the name shareholders by registered mail. Moreover, the agenda, a specimen of the authorization document, and amendments of the Company Statutes (if any) are advertised in the Trade Register Gazette, in a national newspaper and also in a local newspaper.

Within the framework of the preparations for the General Assembly, bank letters concerning the amount of the shares owned by the shareholders or documents confirming the ownership of shares are requested one week before the date of the General Assembly.

In the General Assembly, the shareholders may use their right to ask questions and to submit their proposals. Such questions are answered by the company management, and suggestions, if any, are taken into consideration.

As indicated in the Company Statutes, the General Assembly is authorized to make the decisions indicated below :

- 1.- Acceptance of the Board of Directors Report and of the Auditor's Report,
- 2.- Examination and approval of the Balance Sheet, Profit and Loss Account and the use of the net profit and the determination of the profit distribution,
- 3.- Determination of the number of Directors, their election, dismissal, deposition and re-appointment, and determination of their remuneration,
- 4.- Determination of the number of auditors, their election, and determination of their remuneration.

The activities indicated below depend on the acceptance and approval of the General Assembly beforehand or whenever necessary.

- 1.- Yearly investment and finance plan prepared by the Board of directors;
- 2.- Purchase and sale of real estate and mortgages on the real estate owned by the company;
- 3.- Establishment of branches and partnerships (sub-branches), and buying and selling participations;
- 4.- Passing to new production areas; Other businesses and transactions indicated in the Turkish Commercial Code.

Minutes of the General Assembly may be examined by the shareholders in the company headquarters, in the relevant part in the Internet site, and also in the Istanbul Stock Exchange Bulletins.

#### **5- Voting and Minority Rights**

None of the shareholders of Türk Pirelli Kablo ve Sistemleri A.Ş. has a preferred or privileged voting right, and all the votes have the same weight. Minority rights are arranged according to the relevant provisions of the Turkish Commercial Code.

The shareholders may be represented in the General Assembly by other shareholders or by third parties. However, the arrangements made by the Capital Market Board as regards voting by proxy are reserved.

## **Türk Pirelli Kablo ve Sistemleri A.Ş.**

### **CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

In order to ensure that the minority shareholders have representatives in the Board of Directors, the accumulated voting method is not included in the Company Statutes.

#### **6- Profit Distribution Policy and Profit Distribution Time**

There is no privilege as regards participation to the company's profit distribution, the dividend policy of the company is arranged in accordance with the Company Statutes, Capital Market Legislation and Turkish Commercial Code.

The decision regarding profit distribution is made by the Board of Directors in accordance with the relevant provision in the Company Statutes, and the said decision is then submitted to the approval of the General Assembly, and profit distribution is carried out within the legal period according to the said decision.

#### **7- Transfer of Shares**

There is no provision in the Company Statutes which restricts share transfer, and in case a shareholder desires to transfer his name shares partially or totally, the formality regarding the transfer and recordation of the shares is carried out according to the provisions of Articles 416-418 of the Turkish Commercial Code.

### **PART II - INFORMING THE PUBLIC AND TRANSPARENCY**

#### **8- Company's Information Policy**

Any and all kinds of communications with external sources regarding documents and information related to the company are performed by the Public Relations function for communications with the press, and by the Financial Management as regards corporate investors and authorized bodies, by always obtaining the prior consent of the Managing Director.

The company undertakes to treat its shareholders of every category equally, by avoiding any privileged treatment. With the exclusion of those considered as commercial secret, in accordance with the principles of equity and impartiality, the company responds to all the questions, and establishes a continuous communication between the management and the shareholders in accordance with the existing legislation. This policy has not been disclosed to the public. This policy is disclosed to the public now together with the Company's Corporate Governance text.

#### **9- Special Status Explanations**

Number of Special Status Explanations in 2004:	20
Number of Additional Explanations Requested by the Capital Market Board and the Istanbul Stock Exchange:	0

There is no sanction applicable by the Capital Market Board for not having made special status explanations in time.

## **Türk Pirelli Kablo ve Sistemleri A.Ş.**

### **CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

#### **10- Company's Internet Site and Its Content**

Investors may find the relevant documents such as the Company's Yearly Report and Ethical Rules in Turkish and also in English on our web page ([www.pirelli.com.tr](http://www.pirelli.com.tr)). Moreover, our Internet page covering the following titles are being prepared, and it is expected that it will be completed in 2005.

- \* Trade Register information,
- \* Latest status of partnership structure,
- \* Latest status regarding the Board Members,
- \* Latest status of the Company Statutes,
- \* Activity Reports for the last two years,
- \* Special Status explanations,
- \* Corporate Governance Observance Report,
- \* Attendance sheets and minutes concerning the General Assemblies of the last two years,
- \* Voting form by proxy,
- \* Periodical financial tables and independent audit reports,
- \* Explanations and circulars regarding the presentations to the public,
- \* Agendas of the General Assemblies,
- \* Chapter regarding frequently asked questions,
- \* Minutes of the Board of Directors which may have an effect on the value of the capital market means,
- \* Information regarding sale and purchase of capital market means issued by the shareholders owning 5% of the company capital directly or indirectly, by the Members of the Board, and by the Managers in the previous year.

#### **11- Disclosure of the physical dominant shareholder(s)**

Our studies for collecting detailed information in this respect are in progress.

#### **12- Insider Traders / Disclosure to the Public**

The company did not disclose to the public the list of possible insider traders as of December 31, 2004. The works in this respect are in progress.

## **Türk Pirelli Kablo ve Sistemleri A.Ş.**

### **CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

#### **PART III.- INTEREST OWNERS**

##### **13- Informing the interest owners**

###### **Basic Management Principles**

The basic management principles which arrange the relations between the Executive Management of the company, the shareholders, the employees and third parties (customers, suppliers and any person or organization with which the company has a relation) are indicated below.

**Correctness:** With all our efforts, in all our commercial activities, and in all our relations with our customers, our personnel, our shareholders and with other companies, organizations and establishments we are tied very closely to the correctness principles.

**Reliability:** We give clear, rational and correct information to our customers, shareholders and employees, and provide all our services as required by our undertakings.

**Impartiality:** We do not act with any sex, religion, language and ethnical origin based prejudice to our customers, suppliers, employees and shareholders.

**Observance:** We respect all laws, legislations and standards.

**Secrecy:** With the exclusion of the bodies authorized by law, we do not share the information related to the actions regarding our customers, shareholders, employees, suppliers and business partners with any person or organization.

**Transparency:** With the exclusion of information considered as a commercial secret and information not disclosed to the public, we disclose to the public the information having or not having a financial nature in a correct, complete, rational, interpretable and accessible manner and in accordance with the relevant legislation.

**Social Responsibility:** We take into account the social benefits in our sector and such items as the improvement of the sector and the maintenance of reliability in the sector and also the company's image and possible benefits, and in all our efforts, applications and investments we respect all the arrangements regarding environment, consumer and public health.

Moreover, the agenda of the General Assembly is communicated to the participants by means of the Trade Register Gazette and registered mail, and the decisions taken are explained clearly in the Trade Register Gazette.

Furthermore, information is given to the Capital Market Board, Ministry of Industry and Treasury Under Secretariat, and relevant permissions are obtained from the said official bodies. Again, the public announcements concerning the meetings of the Board of Directors are advertised in one national newspaper and in one local newspaper.

Please see : 8.- Company's information policy

Please see : The Values and Ethical Code of the Pirelli Group / Article 8 - Information

##### **14- Participation of Interest Owners to the Management**

Our company is conducting studies as regards the participation of interest owners to the management.

## **Türk Pirelli Kablo ve Sistemleri A.Ş.**

### **CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

#### **15- Human Resources Policy**

In Türk Pirelli Kablo ve Sistemleri A.Ş., our human resources policy is formed around the basic “Speed, Innovation, Professional Excellence, Transparency, Integration” values. Our policy is to form a structure to ensure continuity in improving the development of individuals, organization and business, in the direction of the company’s strategies.

With its “equal opportunity” principle, our company presents learning, training, development and career opportunities to its employees of different religion, language, culture and sex.

In our organization structure, positions, authorities and responsibilities are determined clearly in the job descriptions, and they are presented to the attention of all of our employees in the intranet system of the company.

Within the concept of human resources, under the leadership of the General Manager, the Personnel Department is responsible for the internal communications of our company.

Please see : The Values and Ethical Code of the Pirelli Group / Article 6 - Human Resources

#### **16- Information Regarding Relations with the Customers and Suppliers**

Please see : The Values and Ethical Code of the Pirelli Group / Article 4 - Customers

#### **17- Social Responsibility**

Türk Pirelli Kablo ve Sistemleri A.Ş. has been the owner of ISO 14001 Environment Management System certificate since 1997. Within the framework of ISO 14001 Environment Management System, the effect of all of the services purchased by our company and all of our company’s activities are determined, and studies are carried out continuously for eliminating or minimizing such effects. All of these studies are conducted following the continuous improvement philosophy, in the direction of the Türk Pirelli Kablo ve Sistemleri A.Ş. Environment Policy defined by the top management.

No lawsuit has been filed against our company for environment pollution.

The legal obligations concerning environment are followed and respected continuously. Türk Pirelli Kablo ve Sistemleri A.Ş. have all the legal permissions regarding environment. These permissions may be outlined as emission permission, discharge permission, establishment permission regarding first class unhealthy establishments and temporary storage permission for dangerous wastes. The activities carried out by Türk Pirelli Kablo ve Sistemleri A.Ş. are not included in the framework of Environmental Effect Evaluation Regulations. We are in possession of an official letter stating that our company is not subject to the preliminary examination by Environmental Effect Evaluation. This official letter was written by the Bursa Governor’s Office - Environment and Forest Directorate which is the authorized body in this respect.

Please see : 13.- Informing the interest owners / Social responsibility

Please see : The Values and Ethical Code of the Pirelli Group / Article 5 - Community and Article 7.- Environment

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

**PART IV - BOARD OF DIRECTORS**

**18- Structure of the Board of Directors, its Formation, and Independent Members**

In the Company Statutes, it is indicated that the tasks and responsibilities of the Board of Directors are subject to the basic provisions defined in accordance with the Turkish Commercial Code and the arrangements in the Company Statutes. The appointment of the Members of the Board, their re-election and their leaving are effected according to the Company Statutes and the provisions of the Turkish Commercial Code.

POSITION	MEMBERS	EXECUTIVE	NON-EXECUTIVE	INDEPENDENT
<b>Chairman</b>	Selahattin Beyazıt		X	X
<b>Vice Chairman</b>	Valerio Battista		X	
<b>Managing Director</b>	Carlo Costa Ardissonne	X		
<b>Member</b>	Hakan Özmen	X		
<b>Member</b>	Sabri Metin Ar		X	X
<b>Member</b>	İshak Alaton		X	X
<b>Member</b>	Aldo L. Kaslowski		X	X
<b>Member</b>	Piero Sierra		X	

POST	MEMBERS	FIRST APPOINTMENT	LATEST-APPOINTMENT
<b>Chairman</b>	Selahattin Beyazıt	19.08.2004	-
<b>Vice Chairman</b>	Valerio Battista	28.03.2002	28.03.2003
<b>Managing Director</b>	Carlo Costa Ardissonne	01.01.2004	-
<b>Member</b>	Hakan Özmen	26.03.2004	-
<b>Member</b>	Sabri Metin Ar	23.12.1998	28.03.2003
<b>Member</b>	İshak Alaton	24.06.2002	28.03.2003
<b>Member</b>	Aldo L. Kaslowski	23.12.1998	28.03.2003
<b>Member</b>	Piero Sierra	10.10.2002	28.03.2003



**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

**19- Characteristics of the Board Members**

**Age Profile of the Board Members:**

AGE GROUP	18-30	31-40	41-50	51-60	61-65	66-70	71 and Over
<b>Number of Member</b>		<b>2</b>	<b>1</b>	<b>1</b>		<b>1</b>	<b>3</b>

The Board of Directors is composed of members who have the knowledge and ability to understand and analyze the financial tables, the legal knowledge necessary for conducting the daily works and the long term activities of the company, and the experience and skill for pointing out what has to be done in different expertise areas regarding company management.

The characteristics that the Board Members should possess are not indicated in the Company Statutes.

**20- Mission and Vision and Strategic Targets of the Company**

Please see : The Values and Ethical Code of the Pirelli Group / Visions of the company

Please see : The Values and Ethical Code of the Pirelli Group / Article 2 - Targets and Values

**21- Risk Management and Internal Audit Mechanism**

The internal audit system of the company is organized in such a way as to explain all the activities of the company properly and to ensure a sufficient audit system.

The responsibility regarding the internal audit system lies with the Board of Directors, and the Board defines the relevant outlines and verifies whether or not the audit is sufficient and works effectively.

The Audit Committee is composed of two Directors who do not participate directly in the company activities and management. The Audit Committee meets regularly as indicated in the relevant notice of the Capital Market Board and the Financial Manager and the representative of the external audit company also attend the said meetings.

The aim of the Audit Committee is to provide help to the Board of Directors to fulfill their long term responsibilities as regards accounting and finance report applications, policies and procedures, and also as regards the quality of the company's internal audit systems and risk management.

The internal audit and periodical audit activities ensure the necessary controls for seeing whether or not the procedures, policies and strategies are being observed. Apart from the audit functions of the Internal Audit Section, the Internal Audit Department of the Pirelli Group performs the internal audit functions of Türk Pirelli Kablo ve Sistemleri A.Ş. in addition to the regular audit work performed by the external Audit Company.

Moreover, in our organization, there is the Planning and Control Section which presents detailed monthly reports to the Managing Director and to the Executive Management and provides useful and extensive information for following specific activities.

## **Türk Pirelli Kablo ve Sistemleri A.Ş.**

### **CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT**

Information regarding relations with PWC, independent audit company:

<http://www.pwc.com/tr/tur/main/home/index.hkmland>;

Information regarding BDO, tax audit company: <http://www.denet.com.tr>

#### **22- Authorities and Responsibilities of the Board Members and Managers**

The Board of Directors performs the following tasks :

- Examination and approval of the strategic, corporate, industrial and financial plans,
- Giving and taking back the necessary authority delegation to the Managing Director, and the determination of the limits of such authorizations, and the form and duration of the use of such authorizations,
- Regular comparison of the results with the budgets, and by taking into account the information received from the Internal Audit Committee and Managing Director, and also by according a special attention to conflicts of interest, the following of the general performance of the activities,
- Examination and approval of the transactions having a significant economic, equity or financial effect by according a special care to the transactions of the relevant parties,
- As organized by the Managing Director, verification of the general organization and the sufficiency of the administrative structure of the company,
- Informing the shareholders about the General Assemblies.

#### **23- Fundamentals Regarding the Activities of the Board of Directors**

The Board of Directors meets at least in quarterly periods. With the exclusion of exceptional situations, the Board Members are provided with the necessary documents and information a reasonable time prior to the meeting in order to allow them to express their opinion about the subject in question.

There is Board Secretariat for giving information to and communicating with the Board Members. In case different opinions are expressed in the Board meeting and/or in case there is an opposition to the resolution of the Board, although our company has no reserve about the inscription of the detailed and reasonable justifications of negative votes to the minutes of the resolution, since such a situation was not encountered, no such application was effected.

#### **24- Prohibition of Making Transactions and Competing with the Company**

In the Ordinary General Assembly which takes place every year, our Board Members are set free by our shareholders according to Articles 334 and 335 of the Turkish Commercial Code.

#### **25- Ethical Rules**

There is a pyramid shaped system regarding principles and procedures, and this system may be summarized as follows :

**Ethical Rules:** These rules encompass the general principles - transparency, equity and loyalty - which form the business relations at every level in the company.

With the belief that business ethics should go side by side with success, the company carries out its internal and external transactions within the principles indicated in these Rules.

## Türk Pirelli Kablo ve Sistemleri A.Ş. CORPORATE GOVERNANCE PRINCIPLES OBSERVANCE REPORT

**Internal Audit System:** This system is a population of “instruments” with a view to reaching reasonably the targets regarding operational efficiency and effectiveness, reliability of financial and administrative information, observance to laws and legislation, and even protection of the company assets against possible fraud. The internal audit system which is based on general applications and defined with them is applied to all corporate levels.

**Lines of Conduct:** The Lines of Conduct stipulate special rules concerning relations with the representatives of the Public Administration, and these rules classify good lines of conduct as “do”, and bad lines of conduct as “do not”, and determine the main operational applications indicated in the Ethical Rules.

**Internal Executive Procedures and Policies of the Company:** These items cover the main business areas as a natural extension of the internal audit system. Therefore, they determine the internal rules concerning the main activities of the Company.

By means of such procedures and policies as Personnel and Recruitment, Purchasing, Sales, Investment, Environment Protection, Information Systems, Stock Evaluation and Intellectual Property Rights Procedures, Türk Pirelli determines the internal rules and structure regarding the main areas for its employees and managers.

All the procedures and policies are presented in an updated form to the employees on the Internet page of the company.

Moreover, please see: The Values and Ethical Code of the Pirelli Group

### 26- Number, Structure and Independency of the Committees Formed in the Board of Directors

Committee	Number of Yearly Meetings	Number of Members	Number of Independent Members
<b>Audit Committee</b>	<b>4</b>	<b>2</b>	<b>2</b>

**Members of the Audit Committee:** Aldo L. Kaslowski and Sabri Metin Ar

The Corporate Governance Committee and other committees were not formed by December 31, 2004. The studies conducted by the Company for forming the Corporate Governance Committee are in progress.

### 27- Financial Rights for the Board of Directors

All the remunerations accrued and payable to the Board Members are as follows:

Total remunerations of the Board Members, General Manager, General Coordinator and other executives are YTL214,139 in 2004.

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**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP**

## The Values and Ethical Code of the Pirelli Group

The identity of our Group has historically been shaped by a set of values which, over the years, we have all sought to pursue and safeguard; the same values that have allowed us to consolidate and enrich our company culture.

The set of rules from which our business values stem, along with clear regulations designed to prevent and pre-empt illicit or illegal conduct, have been formalised in the group's Organisational Model. The model, of which the Ethical Code is the core, was recently adopted by the Board of Directors of Pirelli & C. SpA.

The dissemination of this document will ensure that it is available for consultation by all company employees. It serves as a clear reminder to each of us of the personal responsibility that underpins the effectiveness of this regulatory process.

**Marco Tronchetti Provera**  
**Pirelli & C. SpA Başkanı**

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP**

**Mission**

The Pirelli Group has an outstanding industrial tradition and is ranked among the world's leaders in every sector in which it operates. For more than a century we have been developing into a fully-fledged multinational, firmly rooted in various national markets.

Our competitive strength lies in our technological knowhow and research capabilities and in the quality and professional expertise of our human resources. A firm and constant focus on customer needs allows us to produce and sell complex, high-quality products and to successfully operate from our various international bases. Innovation and research are Pirelli's most distinctive hallmarks.

The Company has pioneered the use of new technologies to develop an integrated, online management system that ranges from provisioning to production and from distribution to sales, with a single key aim: the creation of value.

The emphasis on innovation and on value creation has also led to the development of new businesses in the real estate sector. Here too Pirelli has made its mark, both with major development projects and also through the management and exploitation of real estate assets. We attach the utmost importance to continuous improvement and to the environmental and social impact of our processes and products.

Our conduct is dictated by an Ethical Code applied consistently and responsibly by all the Group's employees and collaborators the world over.

The internationally renowned excellence of the Group's Corporate Governance represents a prioritised, systematic commitment on the part of the Company's top management.

Our management style seeks to strike the best balance between personal responsibility and teamwork; it hinges upon a centralised strategy that is implemented through decentralised, operational responsibility. We will finance our continuing growth through the creation of the right value for our shareholders, our customers and our employees, while fully respecting the communities in which the Company operates.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP**

**Pirelli Group Values**

**CUSTOMER FOCUS**

Understanding the market place in which Pirelli operates and considering the impact of your actions and behaviours on your customer. Taking every opportunity in your job to represent the customer and his needs.

**RESPONSIBILITY AND TENSION TOWARDS RESULTS**

Striving determinedly for results by making a personal commitment to the definition of plans monitoring their progress and providing concrete output.

**TRANSPARENCY**

Being open and honest about financial results. Being prepared to speak up and disagree if you have an alternative. Accepting different views and encouraging change. Exchanging information across all organisational levels

**INNOVATION**

Being the first to come up with radical product/service/process solutions that can be implemented. Pursuing excellence, never accepting standard as good enough. Continuously looking for opportunities to improve existing processes and systems.

**INTEGRATION**

Understanding how a specific action fits into the bigger business picture. Co-operating across and within functions and geographical boundaries towards common goals. Increasing efficiency by minimising the duplication of efforts.

**SPEED**

Sensing the urgency to deliver solutions that will delight customers, ahead of your competitors. Reacting quickly to development needs, effectively identifying the best solutions.

**PROFESSIONAL EXCELLENCE**

Possessing and exploiting technical know-how so as to be the best. Being methodical, sticking to the rules and enjoying what you do.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP**

**The nine articles of the Pirelli Group Ethical Code**

**ARTICLE 1 – INTRODUCTION**

The Pirelli Group conducts its internal and external operations in accordance with the principles set out in this Code, in the belief that business ethics must be pursued alongside business success.

**ARTICLE 2 - AIMS AND VALUES**

The main aim of the Group's companies is to create value for shareholders. Industrial and financial strategies and the resulting operations are geared accordingly, targeting the effective use of resources.

In the pursuit of this goal, the Group's companies are unfalteringly committed to the following principles of conduct:

- As active and responsible members of the communities in which they operate, the Group's companies are committed, in both their internal and external relations, to the observance of national laws and the standard ethical principles sanctioned by international business practice: transparency, honesty and fairness.
- They reject and condemn all and any recourse to illegitimate or dishonest behaviours (towards the community, public authorities, customers, workers, investors and competitors) for the achievement of business goals. The latter shall be pursued exclusively through excellence in performance in terms of quality and the value for money of products and services, based on experience, customer focus and innovation;
- Organizational structures are designed to prevent any violation of the principles of legality, transparency, honesty and fairness by employees and partners and to monitor the observance and implementation of these principles;
- While ensuring the competitiveness of the Company's businesses, the market, investors and the community in general are to be assured of complete transparency.
- Fair competition is encouraged, this being central to the interests of the Company as well as to those of competitors, customers and stakeholders in general;
- Pirelli companies pursue market excellence and competitiveness, offering customers a quality of service that effectively meets their requirements;



**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP**

- The Group's human resources are to be valued and fostered;
- Resources are to be used responsibly, with a view to sustainable development, respect for the environment and the protection of the rights of future generations.

**ARTICLE 3 - SHAREHOLDERS**

Group companies are committed to ensuring equal treatment for all categories of shareholders, avoiding any preferential treatment. The reciprocal benefits that derive from belonging to a group of companies are pursued in accordance with the relevant legislation and the autonomous interests of each Group Company as it seeks to create value.

**ARTICLE 4 - CUSTOMERS**

The excellence of the Group's products and services is based on customer service and the readiness to meet customer needs. The aim is to offer immediate, thoroughgoing and competent responses, tailored to the needs of customers, and in keeping with the spirit of legality, courtesy and co-operation.

**ARTICLE 5 - COMMUNITY**

Group companies are committed to contributing to the economic well-being and growth of the community in which they operate by providing efficient and technologically advanced services.

In line with these objectives, and with their commitments towards the various stakeholders, Group companies regard research and innovation as being the keys to growth and success.

Group companies maintain relationships with local, national and supranational authorities in a spirit of full and active cooperation and transparency that does not compromise their independence, economic targets or the values enshrined in this Code.

Group companies encourage and, where necessary, provide support for social, cultural and educational initiatives geared towards promoting personal development and improving standards of living. Group companies do not contribute or confer advantages or other benefits upon political parties and trade union organizations or their representatives and candidates, without prejudice to compliance with the relevant prevailing legislation.

**Türk Pirelli Kablo ve Sistemleri A.Ş.**  
**THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP**

**ARTICLE 6 - HUMAN RESOURCES**

Group companies recognize the central importance of human resources in the belief that the key to the success of any business is the professional contribution of the people that work for it, in a climate of fairness and mutual trust.

Group companies shall safeguard health and safety in the workplace and consider respect for workers' rights as fundamental to the business. Working relationships are managed with a view to guaranteeing equal opportunities and promoting the personal development of each employee.

**ARTICLE 7 - ENVIRONMENT**

Group companies believe in sustainable international growth in the common interest of all stakeholders, both current and future. Their investment and business decisions therefore reflect respect for the environment and public health.

Without prejudice to compliance with specific prevailing legislation, Group companies are aware of the importance of environmental issues when making choices, not least in the adoption of specific technologies and manufacturing methods (where this is technically feasible and economically viable) that allow for the reduction of the environmental impact of their operations, even beyond the minimum limits set down by regulatory requirements.

**ARTICLE 8 - INFORMATION**

Group companies are aware of the importance of providing the market, investors and the community in general with fair and accurate information about their businesses. Therefore, without prejudice to the obligations of confidentiality attendant upon any business dealings, Group companies see transparency as key to their relations with stakeholders. In particular, Group companies communicate with the market and investors in compliance with the principles of accuracy, clarity and equal access to information.

**ARTICLE 9 - COMPLIANCE WITH THE CODE**

The governance bodies, management and workers across all Group companies, as well as external partners such as consultants, agents and suppliers, are all bound by this Code. Group companies are committed to implementing proper procedures, regulations and directives aimed at ensuring that the values enshrined in this Code are reflected in their actions and in the behaviour of all their employees and partners, providing proper sanctions to be applied for any infringement, as and where appropriate.

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