

**TEKFEN HOLDİNG A.Ş.  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2007**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Tekfen Holding A.Ş.

1. We have audited the accompanying consolidated financial statements of Tekfen Holding A.Ş. (the "Company") and its subsidiaries (together "the Group") which comprise the consolidated balance sheet of 31 December 2007, and the related consolidated statements of income, changes in equity and cash flows for the year ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting standards announced by the Capital Markets Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the auditing standards announced by Capital Markets Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
6. We did not audit the financial statements of two subsidiaries established in Luxembourg; Tekfen International Finance and Investments S.A. and TST Investment Holding S.A. and some of the foreign subsidiaries of those subsidiaries (Note:1). Total assets and revenue of these aforementioned entities constitute 13% and 7% of the total consolidated assets and revenue of the Group as of 31 December 2007, respectively. Those financial statements were audited by other auditors whose reports have been delivered to us. Accordingly our opinion on the financial statements of such companies is based solely in the reports of other auditors.

# Deloitte.

## Opinion

7. In our and other audit companies' opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007 and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the financial reporting standards announced by the Capital Markets Board.

Without qualifying our opinion we draw attention to the following matter:

8. As explained in Note 31, on 6 November 2007, Samsun Municipality (the "Municipality") sent a notice to the Toros Tarım management stating that Samsun Gübre facility of Toros Tarım Sanayi A.Ş. ("Toros Tarım"), affiliate of the Group, has to be closed down. Toros Tarım appealed the Municipality's decision of closing down on 27 November 2007. The Samsun 2nd Administrative Court has declared a stay of execution of the Municipal Decision on 6 December 2007 stating that decision of closing down had been temporarily delayed until the Municipality files its response. However, at 12 March 2008 the Court refused the demand for stay of execution of Toros Tarım. Since the Group's legal claims and appeals against the administrative court's decision is still in process as of the date of this report there is an uncertainty about the legal outcome of these cases. Therefore, the Group has not reserved for the aforementioned legal cases.

Istanbul, 4 April 2008

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**



Ömer Tanrıöver  
Partner

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# TEKFEN HOLDING A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

| ASSETS  | Notes | 31 December<br>2007 | 31 December<br>2006 |
|---|-------|---------------------|---------------------|
| <b>Current Assets</b>                                 |       | <b>1,443,211</b>    | <b>2,180,805</b>    |
| Cash and Cash Equivalents                             | 4     | 521,653             | 209,484             |
| Marketable Securities (net)                           | 5     | -                   | -                   |
| Trade Receivables (net)                               | 7     | 325,539             | 306,831             |
| Financial Lease Receivables (net)                     | 8     | 862                 | 190                 |
| Due From Related Parties (net)                        | 9     | 16,744              | 15,687              |
| Other Receivables (net)                               | 10    | 55,433              | 67,967              |
| Biological Assets                                     | 11    | -                   | -                   |
| Inventories (net)                                     | 12    | 249,398             | 236,099             |
| Receivables From Ongoing Construction Contracts (net) | 13    | 254,824             | 205,903             |
| Deferred Tax Assets                                   | 14    | -                   | -                   |
| Other Current Assets                                  | 15    | 8,990               | 10,800              |
| Assets Classified As Held For Sale                    | 35    | 9,768               | 1,127,844           |
| <b>Non Current Assets</b>                             |       | <b>977,574</b>      | <b>871,424</b>      |
| Trade Receivables (net)                               | 7     | 12,789              | 5,344               |
| Financial Lease Receivables (net)                     | 8     | 10,772              | 11,333              |
| Due From Related Parties (net)                        | 9     | -                   | -                   |
| Other Receivables (net)                               | 10    | 62,859              | 61,734              |
| Financial Receivables (net)                           | 16    | 143,720             | 60,607              |
| Positive/Negative Goodwill (net)                      | 17    | -                   | -                   |
| Investment Property (net)                             | 18    | 115,963             | 119,866             |
| Property, Plant and Equipment (net)                   | 19    | 586,459             | 548,393             |
| Intangible Assets (net)                               | 20    | 4,293               | 4,203               |
| Deferred Tax Assets                                   | 14    | 39,385              | 58,042              |
| Other Non Current Assets                              | 15    | 1,334               | 1,902               |
| <b>TOTAL ASSETS</b>                                   |       | <b>2,420,785</b>    | <b>3,052,229</b>    |

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# TEKFEN HOLDİNG A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

|   |              | 31 December<br>2007 | 31 December<br>2006 |
|---|--------------|---------------------|---------------------|
| <b>LIABILITIES</b>                                  | <b>Notes</b> |                     |                     |
| <b>Current Liabilities</b>                          |              | <b>1,020,350</b>    | <b>2,220,106</b>    |
| Bank Loans (net)                                    | 6            | 309,143             | 462,515             |
| Short Term Portion Of                               |              |                     |                     |
| The Long Term Loans (net)                           | 6            | 8,504               | 81,943              |
| Obligations Under Finance Leases (net)              | 8            | 30,203              | 14,049              |
| Other Financial Liabilities (net)                   | 10           | -                   | -                   |
| Trade Payables (net)                                | 7            | 339,125             | 395,240             |
| Due To Related Parties (net)                        | 9            | 1,707               | 11,645              |
| Advances Received                                   | 21           | 196,566             | 112,245             |
| Ongoing Construction Progress Payments (net)        | 13           | 36,262              | 61,955              |
| Provisions  | 23           | 45,870              | 14,229              |
| Deferred Tax Liabilities                            | 14           | -                   | -                   |
| Other Liabilities                                   | 15           | 17,176              | 25,405              |
| Other Payables                                      | 10           | 35,794              | 37,550              |
| Liabilities For The Assets                          |              |                     |                     |
| Classified As Held For Sale                         | 35           | -                   | 1,003,330           |
| <b>Non Current Liabilities</b>                      |              | <b>183,331</b>      | <b>198,605</b>      |
| Bank Loans (net)                                    | 6            | 7,055               | 47,278              |
| Obligations Under Finance Leases (net)              | 8            | 68,084              | 16,814              |
| Other Financial Liabilities (net)                   | 10           | -                   | -                   |
| Trade Payables (net)                                | 7            | 1,805               | 18,824              |
| Due To Related Parties (net)                        | 9            | -                   | -                   |
| Advances Received                                   | 21           | 38,349              | 21,629              |
| Provisions  | 23           | 27,748              | 24,669              |
| Other Liabilities                                   | 15           | -                   | -                   |
| Deferred Tax Liabilities                            | 14           | 30,939              | 46,942              |
| Other Payables                                      | 10           | 9,351               | 22,449              |
| <b>MINORITY INTEREST</b>                            | 24           | <b>15,764</b>       | <b>19,227</b>       |
| <b>EQUITY</b>                                       |              | <b>1,201,340</b>    | <b>614,291</b>      |
| Share Capital                                       | 25           | 296,775             | 104,000             |
| Adjustment To Share Capital                         |              | -                   | -                   |
| Capital Reserves                                    | 26           | 407,259             | 136,901             |
| Premium In Access Of Par                            |              | 301,839             | -                   |
| Gain On Cancellation Of Equity Shares               |              | -                   | -                   |
| Revaluation Fund                                    |              | 585                 | 3,128               |
| Fair Value Reserve Of Financial Assets              |              | 41,975              | 39,500              |
| Inflation Adjustment On Equity                      |              | 62,860              | 94,273              |
| Profit Reserves                                     | 27           | 79,164              | 78,541              |
| Legal Reserves                                      |              | 3,560               | 10,615              |
| Statutory Reserves                                  |              | -                   | -                   |
| Extraordinary Reserves                              |              | 75,604              | 67,926              |
| Special Reserves                                    |              | -                   | -                   |
| Gain On Sale Of Investment And Property To Be Added |              | -                   | -                   |
| To Share Capital                                    |              | -                   | -                   |
| Currency Translation Reserve                        |              | (43,410)            | (7,169)             |
| Net Profit For The Year                             |              | 279,257             | 80,975              |
| Retained Earnings                                   | 28           | 182,295             | 221,043             |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>   |              | <b>2,420,785</b>    | <b>3,052,229</b>    |

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**TEKFEN HOLDING A.Ş. AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2007**

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

|  | Notes | 1 January 2007-<br>31 December 2007 | 1 January 2006-<br>31 December 2006 |
|--|-------|-------------------------------------|-------------------------------------|
| <b>OPERATING INCOME</b>                                      |       |                                     |                                     |
| -Revenue (net)   | 36    | 1,895,332                           | 1,725,779                           |
| -Cost of Revenue (-)   | 36    | (1,625,938)                         | (1,454,879)                         |
| -Service Revenue (net)                                       | 36    | -                                   | -                                   |
| -Income from Other Operations (net)                          | 36    | 12,650                              | 16,715                              |
| <b>GROSS PROFIT</b>  |       | <b>282,044</b>                      | <b>287,615</b>                      |
| -Operating Expenses (-)                                      | 37    | (151,949)                           | (142,533)                           |
| <b>OPERATING PROFIT</b>                                      |       | <b>130,095</b>                      | <b>145,082</b>                      |
| -Other Income and Profits                                    | 38    | 26,357                              | 21,424                              |
| -Other Expenses and Losses (-)                               | 38    | (15,009)                            | (15,589)                            |
| -Finance Income / (Expense) (net) (-)                        | 39    | 9,451                               | (60,688)                            |
| <b>Profit Before Monetary Gain / (Loss) and Tax</b>          |       | <b>150,894</b>                      | <b>90,229</b>                       |
| - Net Monetary Gain / (Loss)                                 | 40    | -                                   | -                                   |
| <b>SHARE OF MINORITY ON PROFIT<br/>FOR THE YEAR (-)</b>      | 24    | <b>(633)</b>                        | <b>513</b>                          |
| <b>Profit Before Taxation</b>                                |       | <b>150,261</b>                      | <b>90,742</b>                       |
| - Taxation   | 41    | (25,893)                            | (22,173)                            |
| <b>NET PROFIT FOR THE YEAR<br/>FROM CONTINUED OPERATIONS</b> |       | <b>124,368</b>                      | <b>68,569</b>                       |
| -Profit For the Year<br>From Discontinued Operations         | 35    | 154,889                             | 12,406                              |
| <b>NET PROFIT FOR THE YEAR</b>                               |       | <b>279,257</b>                      | <b>80,975</b>                       |
| <b>FROM CONTINUING AND DISCONTINUED<br/>OPERATIONS:</b>      |       |                                     |                                     |
| Earnings per Preferred Share                                 | 42    | -                                   | 0.350                               |
| Earnings per Common Share                                    | 42    | 1.158                               | 0.355                               |
| <b>FROM CONTINUING OPERATIONS</b>                            |       |                                     |                                     |
| Earnings per Preferred Share                                 | 42    | -                                   | 0.297                               |
| Earnings per Common Share                                    | 42    | 0.516                               | 0.301                               |

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**TEKFEN HOLDING A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2007**

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

|   | Share<br>Capital | Inflation<br>Adjustment<br>on Equity | Premium<br>in access<br>of par | Hedging<br>Reserves | Revaluation<br>Fund | Fair Value<br>Reserve of<br>Financial<br>Assets | Foreign<br>Currency<br>Translation<br>Reserve | Legal<br>Reserves | Extraordinary<br>Reserves | Net Profit<br>For the<br>Year | Retained<br>Earnings | Total     |
|---|------------------|--------------------------------------|--------------------------------|---------------------|---------------------|---|---|-------------------|---------------------------|-------------------------------|----------------------|-----------|
| <b>Balances as at 1 January 2006</b>  | 40,500           | 157,773                              | -                              | (812)               | -                   | 53,883  | (7,832)                                       | 10,254            | 63,227                    | 121,353                       | 104,787              | 543,133   |
| Foreign currency translation reserve  | -                | -                                    | -                              | -                   | -                   | -   | 663   | -                 | -                         | -                             | -                    | 663       |
| Revaluation Fund  | -                | -                                    | -                              | -                   | 3,128               | (14,383)  | -   | -                 | -                         | -                             | -                    | 3,128     |
| Fair value reserve of financial assets  | -                | -                                    | -                              | -                   | -                   | -   | -   | -                 | -                         | -                             | -                    | (14,383)  |
| Net income / (expense) recognized<br>directly in equity                                       |                  |                                      |                                |                     |                     |   |   |                   |                           |                               |                      |           |
| Hedging reserves  | 40,500           | 157,773                              | -                              | (812)               | 3,128               | 39,500  | (7,169)                                       | 10,254            | 63,227                    | 121,353                       | 104,787              | 532,541   |
| Net profit for the year   | -                | -                                    | -                              | 812                 | -                   | -   | -   | -                 | -                         | -                             | -                    | 812       |
| Total income and expense for the period   | -                | -                                    | -                              | -                   | -                   | -   | -   | -                 | -                         | -                             | -                    | -         |
| Capital increase  | 40,500           | 157,773                              | -                              | -                   | 3,128               | 39,500  | (7,169)                                       | 10,254            | 63,227                    | 80,975                        | 104,787              | 614,328   |
| Payment of dividends  | 63,500           | (63,500)                             | -                              | -                   | -                   | -   | -   | -                 | -                         | -                             | -                    | 80,975    |
| Transfers to retained earnings  | -                | -                                    | -                              | -                   | -                   | -   | -   | -                 | -                         | -                             | (37)                 | (37)      |
| Transfers to reserves   | -                | -                                    | -                              | -                   | -                   | -   | -   | -                 | -                         | (121,353)                     | 121,353              | -         |
| Transfers to reserves   | -                | -                                    | -                              | -                   | -                   | -   | -   | 361               | 4,699                     | -                             | (5,060)              | -         |
| <b>Balance as at 31 December 2006</b>   | 104,000          | 94,273                               | -                              | -                   | 3,128               | 39,500  | (7,169)                                       | 10,615            | 67,926                    | 80,975                        | 221,043              | 614,291   |
| <b>Balances as at 1 January 2007</b>  | 104,000          | 94,273                               | -                              | -                   | 3,128               | 39,500  | (7,169)                                       | 10,615            | 67,926                    | 80,975                        | 221,043              | 614,291   |
| Foreign currency translation reserve  | -                | -                                    | -                              | -                   | -                   | -   | (36,241)                                      | -                 | -                         | -                             | -                    | (36,241)  |
| Group's share on net assets of investments<br>in associates accounted by equity pickup method | -                | -                                    | -                              | -                   | (299)               | 543   | -   | -                 | -                         | -                             | -                    | 1,099     |
| Increase in premium in access of par  | -                | -                                    | 855                            | -                   | -                   | -   | -   | -                 | -                         | -                             | -                    | 380,618   |
| Public offering expenses  | -                | -                                    | 380,618                        | -                   | -                   | -   | -   | -                 | -                         | -                             | -                    | (12,859)  |
| Fair value reserve of financial assets  | -                | -                                    | (12,859)                       | -                   | -                   | -   | -   | -                 | -                         | -                             | -                    | -         |
| Fair value reserve of financial assets  | -                | -                                    | -                              | -                   | -                   | 2,112   | -   | -                 | -                         | -                             | -                    | 2,112     |
| Net income / (expense) recognized<br>directly in equity                                       |                  |                                      |                                |                     |                     |   |   |                   |                           |                               |                      |           |
| Effect of sale of subsidiaries  | 104,000          | 94,273                               | 368,614                        | -                   | 2,829               | 42,155  | (43,410)                                      | 10,615            | 67,926                    | 80,975                        | 221,043              | 949,020   |
| Net profit for the year   | -                | -                                    | -                              | -                   | (2,244)             | (180)   | -   | -                 | -                         | -                             | -                    | (2,424)   |
| Total income and expense for the period   | -                | -                                    | -                              | -                   | -                   | -   | -   | -                 | -                         | 279,257                       | -                    | 279,257   |
| Capital increase from premium in access of par  | 104,000          | 94,273                               | 368,614                        | -                   | 585                 | 41,975  | (43,410)                                      | 10,615            | 67,926                    | 360,232                       | 221,043              | 1,225,853 |
| Transfers to retained earnings  | 66,775           | -                                    | (66,775)                       | -                   | -                   | -   | -   | -                 | -                         | -                             | -                    | -         |
| Effect of sale of subsidiaries  | -                | -                                    | -                              | -                   | -                   | -   | -   | -                 | -                         | (80,975)                      | 80,975               | -         |
| Capital increase from inflation<br>adjustment on equity and retained earnings                 | -                | -                                    | -                              | -                   | -                   | -   | -   | (7,330)           | -                         | -                             | 7,330                | -         |
| Transfers to reserves from retained earnings  | 126,000          | (31,413)                             | -                              | -                   | -                   | -   | -   | -                 | -                         | -                             | (94,587)             | -         |
| Payment of dividends  | -                | -                                    | -                              | -                   | -                   | -   | -   | 275               | 7,678                     | -                             | (7,953)              | -         |
| Payment of dividends  | -                | -                                    | -                              | -                   | -                   | -   | -   | -                 | -                         | -                             | (24,513)             | (24,513)  |
| <b>Balance as at 31 December 2007</b>   | 296,775          | 62,860                               | 301,839                        | -                   | 585                 | 41,975  | (43,410)                                      | 3,560             | 75,604                    | 279,257                       | 182,295              | 1,201,340 |

The accompanying notes form an integral part of these financial statements.  
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**TEKFEN HOLDING A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

|   | Notes | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
|---|-------|-----------------------------------|-----------------------------------|
| <b>CASH FLOW FROM OPERATING<br/>ACTIVITIES</b>  |       |                                   |                                   |
| Profit for the year   |       | 279,257                           | 80,975                            |
| Adjustments to reconcile net income to net cash<br>provided by operating activities:          |       |                                   |                                   |
| Share of minority in profit / (loss)  | 24    | 633                               | (513)                             |
| Gain on sale of a subsidiary  | 35    | (154,889)                         | -                                 |
| Depreciation of tangible assets   | 19    | 62,473                            | 46,702                            |
| Amortization of intangible assets   | 20    | 1,607                             | 2,934                             |
| Depreciation of investment property   | 18    | 3,052                             | 3,852                             |
| Effect of liquidation on tangible assets  | 19    | -                                 | (2,371)                           |
| Miscellaneous provisions  | 23    | 66                                | 98                                |
| Reversal of unnecessary provision   | 7,23  | (3,245)                           | (205)                             |
| Provisions for litigation   | 23    | 4,866                             | 3,056                             |
| Discount on notes receivables   | 7     | (418)                             | 1,473                             |
| Discount of notes payables and trade payables   | 7     | (1,257)                           | 1,859                             |
| Provision for retirement pay provision  | 23    | 9,706                             | 10,808                            |
| Provision for bonuses   | 23    | 8,179                             | 1,831                             |
| Group's share on net assets of investments<br>in associates accounted by equity pickup method | 38    | (8,463)                           | -                                 |
| Gain on sale of tangible assets   | 38    | (2,321)                           | (7,188)                           |
| Allowances for doubtful receivables   | 7     | 1,571                             | 3,903                             |
| Allowances for diminution in value of<br>available for sale investment                        | 16    | 3,005                             | (82)                              |
| Interest income   | 39    | (25,942)                          | (10,047)                          |
| Interest expense  | 39    | 48,625                            | 59,928                            |
| Tax effect of discontinued operations   | 14,35 | 14,217                            | 5,107                             |
| Effect of discontinued operations on minority interest  | 24    | -                                 | 226                               |
| Dividend income   | 36    | (7,326)                           | (9,270)                           |
| Reversal of unnecessary tax provisions  | 41    | -                                 | 6,131                             |
| Adjustments recognised in current year<br>in relation to the corporate tax of prior years     |       | (1,380)                           | 476                               |
| Allowance for taxation  | 41    | 25,893                            | 22,173                            |
| Cash flow from operating activities   |       | <u>257,909</u>                    | <u>221,856</u>                    |
| Movements in working capital  | 43    | (103,326)                         | (71,131)                          |
| Net cash generated by operating activities  |       | 154,583                           | 150,725                           |
| Interest received   |       | 20,103                            | 9,177                             |
| Interest paid   |       | (42,613)                          | (56,117)                          |
| Tax paid  | 41    | (12,181)                          | (10,581)                          |
| Penalty of litigation paid  | 23    | (703)                             | (231)                             |
| Bonuses paid  | 23    | (1,801)                           | -                                 |
| Retirement pay provision paid   | 23    | (4,756)                           | (9,531)                           |
| Cash flows from operating activities  |       | <u>112,632</u>                    | <u>83,442</u>                     |

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The accompanying notes form an integral part of these financial statements.  
Translated into English from the report originally issued in Turkish.

**TEKFEN HOLDING A.Ş. AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

|   | Notes | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
|---|-------|-----------------------------------|-----------------------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |       |                                   |                                   |
| Proceeds from sale of a subsidiary                            | 35    | 255,192                           | -                                 |
| Changes in available for sale investments                     | 16,35 | (43,349)                          | 13,091                            |
| Changes in marketable securities                              |       | -                                 | (35,580)                          |
| Changes in assets classified as held for sale                 | 35    | (865)                             | 194                               |
| Acquisition of tangible assets                                | 19    | (71,851)                          | (93,168)                          |
| Acquisition of intangible assets                              | 20    | (2,083)                           | (4,128)                           |
| Proceeds from sale of tangible assets                         | 19    | 18,969                            | 13,111                            |
| Changes in investment property                                | 18    | (165)                             | 11,483                            |
| Changes in mandatory reserve in Central Bank                  |       | -                                 | (22,138)                          |
| Dividend income from subsidiaries                             | 36    | 7,326                             | 9,270                             |
| Changes in other investing activities                         | 43    | (20,043)                          | 10,655                            |
| Net cash (used in)/generated by investing activities          |       | 143,131                           | (97,210)                          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |       |                                   |                                   |
| Capital increase due to public offering                       |       | 66,775                            | -                                 |
| Changes in premium in excess of par                           |       | 300,984                           | -                                 |
| Proceeds from borrowings                                      |       | 520,593                           | 527,929                           |
| Repayments of borrowings                                      |       | (701,554)                         | (471,021)                         |
| Effect of discontinued operations on borrowings               |       | (16,079)                          | 67,731                            |
| Finance lease paid  |       | (9,329)                           | (7,919)                           |
| Dividends paid  |       | (24,513)                          | (37)                              |
| Dividends paid to minority shares                             | 24    | -                                 | (215)                             |
| Net cash generated by financing activities                    |       | 136,877                           | 116,468                           |
| <b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>               |       | <b>392,640</b>                    | <b>102,700</b>                    |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b> |       | <b>209,484</b>                    | <b>351,951</b>                    |
| Translation reserve (net)                                     |       | (86,310)                          | 15,288                            |
| Accrued interest on cash and cash equivalents                 | 4     | 5,839                             | 870                               |
| Cash and cash equivalents of discontinued operations          | 35    | -                                 | (261,325)                         |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>       |       | <b>521,653</b>                    | <b>209,484</b>                    |

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# TEKFEN HOLDİNG A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

### 1. ORGANIZATION AND OPERATIONS OF THE GROUP

Majority shares of Tekfen Holding A.Ş. ("the Group") are controlled by: Necati Akçağlılar, Feyyaz Berker, and Ali Nihat Gökyiğit. The Company and its subsidiaries are referred to as the "Group" in the accompanying consolidated financial statements.

As of 31 December 2007, the Group has 15,738 employees (31 December 2006: 11,791) including the personnel of subcontractors. Registered address of the Company is Kültür Mahallesi, Aydınlık Sokak, Tekfen Sitesi A Blok No:7 Beşiktaş, İstanbul / Türkiye.

As of 31 December 2007 registered names of the subsidiaries, joint ventures and branches, nature of their business, countries of their origin and the business segments they belong to are listed below.

| Registered Name of Subsidiaries   | Nature of business                           | Country of Origin | Business Segment                      |
|---|--|-------------------|---------------------------------------|
| Eurobank Tekfen A.Ş. (formerly Tekfenbank A.Ş.)<br>"Tekfenbank" (1)   | Banking                                      | Turkey            | Discontinued operation                |
| EFG Finansal Kiralama A.Ş. "Tekfen Leasing" (1)<br>(formerly Tekfen Finansal Kiralama A.Ş.)                     | Finance leasing                              | Turkey            | Discontinued operation                |
| Tekfen Sigorta Aracılık Hizmetleri A.Ş. "Tekfen Sigorta"  | Insurance Service                            | Turkey            | Other                                 |
| Tekfen Dış Ticaret A.Ş. "Tekfen Dış Ticaret"  | Discontinued operation                       | Turkey            | Other                                 |
| Belediye Tüketim Malları İthalat İhracat Ticaret ve Pazarlama A.Ş. "Belpa"                                      | Trade  | Turkey            | Real Estate                           |
| Tekfen Kültür Sanat Ürünleri Yapım ve Yayın San. Tic. A.Ş. "Tekfen Kültür"                                      | Cultural activities                          | Turkey            | Other                                 |
| Tekfen Turizm İşletmecilik A.Ş. "Tekfen Turizm"   | Service                                      | Turkey            | Real Estate                           |
| TST Investment Holding S.A. "TST Holding"   | Investment                                   | Luxembourg        | Other                                 |
| TST International Finance S.A. "TST Finance"  | Investment                                   | Luxembourg        | Other                                 |
| TST International Trading Limited "TST Trading"   | Trading                                      | Ireland           | Agriculture                           |
| TST International Limited "TST Ltd."  | Trading                                      | United Kingdom    | Agriculture                           |
| Petrofertil Shipping S.A. "Petrofertil Shipping"  | Service                                      | Panama            | Agriculture/<br>Contracting/<br>Other |
| Petrofertil Trading Limited "Petrofertil Trading"   | Trading                                      | United Kingdom    | Agriculture                           |
| Industrial Supply and Trading Company Limited<br>"Industrial Supply"  | Trading                                      | United Kingdom    | Agriculture                           |
| Toros Gayrimenkul Yatırım A.Ş. "Toros Gayrimenkul"<br>(formerly Toros Uluslararası Nakliyat ve Denizcilik A.Ş.) | Real Estate                                  | Turkey            | Agriculture                           |
| Toros Tarım Sanayi ve Ticaret A.Ş. "Toros Tarım"  | Manufacturing –<br>Agriculture -<br>Seedling | Turkey            | Agriculture                           |
| Toros Adana Yumurtalık Serbest Bölgesi Kurucu ve İşleticisi A.Ş. "Tayseb"                                       | Service                                      | Turkey            | Agriculture                           |
| Toros Terminal Servisleri A.Ş. "Toros Terminal"   | Service                                      | Turkey            | Agriculture                           |
| Toros Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş.<br>"Toros Enerji"   | Energy –<br>Manufacturing                    | Turkey            | Agriculture                           |
| Hishtill Toros Fidecilik Sanayi ve Ticaret A.Ş. "H-T Fidecilik"   | Seedling –<br>Agriculture                    | Turkey            | Agriculture                           |
| Türk Arap Gübre A.Ş. "Türk Arap Gübre"  | Manufacturing –<br>Agriculture               | Turkey            | Agriculture                           |
| HMB Hallesche Mitteldeutsche Bau-Aktiengesellschaft,<br>Halle "HMB"   | Trading                                      | Germany           | Contracting                           |
| Tekfen Endüstri ve Ticaret A.Ş. "Tekfen Endüstri"   | Trading                                      | Turkey            | Other                                 |
| Toros Gemi Acenteliği ve Ticaret A.Ş. "Toros Gemi"  | Shipping Agent                               | Turkey            | Agriculture                           |
| Karaca Giyim Sanayi ve Ticaret A.Ş. "Karaca Giyim"  | Discontinued<br>Operation                    | Turkey            | Other                                 |

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## TEKFEN HOLDİNG A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

#### 1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

| Registered Name of Subsidiaries(cont'd)  | Nature of business        | Country of Origin | Business Segment |
|--|---------------------------|-------------------|------------------|
| Karaca Pazarlama A.Ş. "Karaca Pazarlama" (5)   | "Discontinued Operation"  | Turkey            | Other            |
| Papfen Joint Stock Company "Papfen"  | Textile                   | Uzbekistan        | Other            |
| Tekfen International Finance and Investments S.A. "Tekfen Finance"   | Investment                | Luxembourg        | Other            |
| Tekfen Participations S.A. "Tekfen Participations"   | Investment                | Luxembourg        | Other            |
| Tekfen International Limited "Tekfen International Ltd"  | Investment                | United Kingdom    | Contracting      |
| Tekfen Construction and Installation Company Limited "Tekfen Construction"                                 | Construction              | Ireland           | Contracting      |
| Antalya Stüdyoları A.Ş. "Antalya Stüdyoları"   | "Studio administration"   | Turkey            | Other            |
| KabloteK Kablo Şebekeleri Tesis İşletme Mühendislik İnş. Tic. San. A.Ş. "KabloteK"                         | Cable TV network operator | Turkey            | Other            |
| Tekfen Emlak Geliştirme Yatırım ve Ticaret A.Ş. "Tekfen Emlak" (old name Tekfen Doğalgaz Dağıtım A.Ş.) (2) | Real Estate               | Turkey            | Real Estate      |
| Tekfen-Oz Gayrimenkul Geliştirme A.Ş. "Tekfen Oz" (4)  | Real Estate               | Turkey            | Real Estate      |
| Tekfen İnşaat ve Tesisat A.Ş. "Tekfen İnşaat"  | Construction              | Turkey            | Contracting      |
| Tekfen Mühendislik A.Ş. "Temaş"  | Engineering               | Turkey            | Contracting      |
| Tekfen İmalat ve Mühendislik A.Ş. "Timaş"  | Manufacturing             | Turkey            | Contracting      |
| Cenub Tikinti Servis ASC. "Cenub Tikinti"  | Construction              | Azerbaijan        | Contracting      |

As of 31 December 2007 joint ventures included in the Group's consolidation are as follow:

| Registered Name of the Joint Venture                              | Nature of Business | Country of Origin    | Business Segment |
|---|--------------------|----------------------|------------------|
| Gate İnşaat Taahhüt Sanayi ve Ticaret A.Ş. "Gate J.V." (3)        | Construction       | Turkey               | Contracting      |
| Azfen Birge Müessesesi "Azfen J.V." (3)                           | Construction       | Azerbaijan           | Contracting      |
| Tekfen Impresit J.V. "Impresit"                                   | Construction       | Turkey               | Contracting      |
| Tekfen-Tubin-Özdemir J.V. "TÖT J.V."                              | Construction       | Turkey               | Contracting      |
| Tubin-Tekfen-Özdemir J.V. "TTÖ J.V."                              | Construction       | Turkey               | Contracting      |
| Overseas International Constructors GmbH "OIC J.V."(3)            | Construction       | Switzerland          | Contracting      |
| North Caspian Constructors B.V. "NCC J.V." (3)                    | Construction       | Netherland           | Contracting      |
| CP Contracting and Trading FZE "CP J.V." (3)                      | Construction       | United Arab Emirates | Contracting      |
| Nurol-Tekfen-Yüksel J.V. "NTY J.V."                               | Construction       | Turkey               | Contracting      |
| Tekfen TML J.V. " Tekfen TML J.V."                                | Construction       | Libya                | Contracting      |
| Gama-Tekfen-Tokar J.V. "GIT J.V."                                 | Construction       | Turkey               | Contracting      |
| TGO İnşaat Taahhüt Nakliyat Ticaret San. Ltd. Şti. "TGO J.V." (3) | Construction       | Turkey               | Contracting      |

(1) In 2006, the Group has classified its assets of these subsidiaries as "Assets Classified As Held for Sale"; their liabilities as "Liabilities Classified As Held for Sale" and profit from these operations as "Profit from Discontinued Operations".

(2) Registered name of Tekfen Doğalgaz was changed as "Tekfen Emlak Geliştirme Yatırım ve Ticaret A.Ş." as of 18 September 2006 and nature of business changed to real estate.

(3) Companies are joint ventures in terms of their operations; however, they are established as equity companies in terms at their legal structure.

(4) The Group has established a company named "Tekfen Oz Gayrimenkul Emlak Geliştirme A.Ş." on 9 October 2007 and registered the firm by 17 October 2007 dated, 6917 numbered Trade Registry Gazette.

(5) Karaca Pazarlama and Karaca Giyim merged under Karaca Giyim on 19 November 2007,

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# TEKFEN HOLDİNG A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

### 1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

As of 31 December 2007, branches included in the Group's consolidation are as follow:

| <u>Branch Name</u>                        | <u>Nature of Business</u> | <u>Place of Operation and Country of Origin</u> |
|---|---------------------------|---|
| Tekfen İnşaat – Bakü Office               | Construction              | Azerbaijan                                      |
| Tekfen İnşaat – Saudi Arabia Office       | Construction              | Saudi Arabia                                    |
| Tekfen İnşaat – Morocco Office            | Construction              | Morocco   |
| Tekfen İnşaat – Kuwait Office             | Construction              | Kuwait  |
| Tekfen İnşaat – Qatar Office              | Construction              | Qatar   |
| Tekfen İnşaat – Dubai Office              | Construction              | United Arab Emirates                            |
| Tekfen İnşaat – Muscat Office             | Construction              | Oman  |
| Tekfen Dış Ticaret – Europe Free Zone (1) | Trading                   | Turkey  |
| Tekfen Dış Ticaret – Mersin Free Zone (1) | Trading                   | Turkey  |
| Tekfen Endüstri- Mersin Free Zone         | Trading                   | Turkey  |

(1) Tekfen Dış Ticaret was merged with Mersin Free Zone and Europe Free Zone as of 24 March 2006 and 29 March 2006 by closing the branches, respectively.

(2) Tekfen Endüstri, Mersin Free Zone was closed at 26 December 2007.

The Group's management manages its operations by four main business lines; contracting, agriculture, real estate and other operations. The Group discontinued its banking operations by selling the majority portion of its shares in subsidiary. Therefore, the Group's banking sector operations in 2006 are stated as discontinued operations in the accompanying financial statements (Note: 35). Nature of business of Group companies can be summarized as follows:

#### Contracting Group

The Group's contracting segment undertakes infrastructure and industrial construction projects in Saudi Arabia, Azerbaijan, Kuwait, Kazakhstan, and Morocco. Contracting group especially specializes on construction of petroleum and gas facilities. In recent years, the Group's contracting business line expands its operations by starting construction projects in Libya, Qatar, Bulgaria, and Oman. Terminals, offshore platforms, tank farms, pipe lines, petroleum refineries, pumping stations, generating station, highway and metro project, electricity and telecommunication systems, residential and trading centers, stadium and sport complex are included in contracting group's scope of activity.

#### Agricultural Group

Agricultural group has operations in chemical fertilizer, ground and vegetable grain, seedling, energy production and sapling production distribution and trade since 1981. In 2005 Samsun Gübre, Tekfen Sanayi Yatırımları and Toros Gübre merged under Toros Tarım Sanayi and Ticaret. In addition to these operations, harbour and free zone operations are included in the operations of agricultural industry group.

#### Real Estate Group

Real Estate segment has been founded in 2000 and operates in designing, constructing, renting, and sale of real estates such as residents, offices, shopping centers, and hotels. The Group has established a company named "Tekfen Oz Emlak Geliştirme A.Ş." in 9 October 2007 and registered to Trade Registry Gazette numbered 6917 at 17 October 2007.

#### Other Operations

Operations of other segment comprise of light-pulp trading, cotton yarn trading, insurance services and holding services. Holding operations executed by Tekfen Holding A.Ş. and covers Group's financial needs. Moreover, dividend income and rent income provided constitute Holding's revenue from operations.

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## TEKFEN HOLDİNG A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

#### 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

##### Applied Accounting Standards:

The Group companies registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation. Books of account of subsidiaries and joint ventures established in abroad are prepared in accordance with legislation requirements of their country of origin.

The Capital Market Board ("CMB") published a set of comprehensive accounting policies in the Communiqué Series XI, No: 25, "The Capital Markets Accounting Standards". In accordance with the Communiqué on "Amendments upon the Capital Markets Accounting Standards" (Serial:XI, No:27) issued on 23 December 2004 and the additional Article 1 to the Communiqué on the "Capital Markets Accounting Standards" Serial: XI, No: 25, it is declared that, without revealing the declarations made by the CMB upon Accounting Standards including financial reporting and footnote disclosures, application of International Financial Reporting Standards (IFRS) should be subject to the preparation and presentation requirements of financial statements set out in the Communiqué Serial: XI, No: 25. Thus, as an alternative, accounting standards issued by the International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC) shall be counted as compliant with the CMB' s Accounting Standards.

Accordingly, the Group prepares its financial statements in accordance with the alternative application permitted by the CMB, mentioned above. Presentation of financial statements and the content of footnote disclosures are in compliance with the compulsory format announced on 20 December 2004 by the CMB.

##### Functional and Reporting Currency:

Functional and reporting currency of the Group's contracting segment is US dollars and its reporting currency of the Group is TRY. In accordance with IAS 21 ("The Effects of Changes in Foreign Exchange Rates"), balance sheet items are translated into TRY with the US dollar rates prevailing at the balance sheet date and revenue, expenses and cash flows are translated with the exchange rates at the transaction date (historical rates) or yearly average rate. Gain/loss arising from the translation is recognized in the foreign currency translation reserve under equity.

The individual financial statements of branches operating in contracting segment are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements of contracting segment, balance sheet items are translated into US dollar with the US dollar rates prevailing at the balance sheet date and revenue, expenses and cash flows are translated with the exchange rates at the transaction date (historical rates). Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

The exchange rate announced by the Turkish Central Bank as of 31 December 2007 is; 1 USD Dollar=1.1647 TRY, 1 EUR=1.7102 TRY, 1 MAD=0.152 TRY, 1 OMR=3.036 TRY, 1 KWD=4.029 TRY, 1 SR=0.311, 1 QR=0.312 TRY (On 31 December 2006; 1 USD Dollar=1.4056 TRY, 1 EUR=1.8515 TRY, 1 MAD=0.167 TRY, 1OMR=3.650 TRY,1 KWD=4.821 TRY, 1 SR=0.375 TRY, 1 QR=0.385 TRY).

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## TEKFEN HOLDİNG A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

#### 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

##### Consolidation Principles:

Consolidated financial statements comprise the accounts of Tekfen Holding's subsidiaries, branches and joint ventures.

Entities in which the Group, directly or indirectly, has above 50% shareholding or interest of voting rights or otherwise has power to exercise control over operations, have been fully consolidated. The Group has obtained shares from the operations of the equity subsidiaries since it has power to govern the financial and operational policies of the Group. All significant transactions and balances between the Group and its consolidated subsidiaries are eliminated on the consolidation. Shares pertaining to third parties in the shareholders' equity and net profit / (loss) of the consolidated subsidiaries, which are not fully (100%) owned, are separately accounted for as minority interests in the consolidated financial statements.

A joint venture is a contractual arrangement whereby one or more parties of Tekfen Holding A.Ş. as audit subsidiaries undertake an economic activity that is subject to joint control. Balance sheet and statements of income shares related to the Group's joint ventures in domestic and overseas construction projects are reflected to the consolidated financial statements proportional to the share percentage in these joint ventures.

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). For subsidiaries of which the Group holds 20% or 50% of sharing or the voting power, however, it has no significant control on their operations are recognized based on the equity method. Under the equity method, subsidiary is carried at net asset amount in the consolidated balance sheet and the Group's share arising from the results of the operations is included in the consolidated statements of income. Unless the decrease in the subsidiaries' net asset value is temporary, its value is carried at the reduced value in the consolidated financial statements.

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# TEKFEN HOLDİNG A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

### 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

#### Consolidation Principles (cont'd):

As of 31 December 2007 and 2006, effective and direct rate of the Group's ownership in the related subsidiaries and joint ventures are as follows.

| Registered Name of the Subsidiary | Direct ownership % |      | Effective ownership % |      |
|-----------------------------------|--------------------|------|-----------------------|------|
|                                   | 2007               | 2006 | 2007                  | 2006 |
| Tekfenbank (1)                    | 29,13              | 98   | 29,13                 | 98   |
| Tekfen Sigorta                    | 100                | 100  | 100                   | 100  |
| Tekfen Dış Ticaret                | 100                | 100  | 100                   | 100  |
| Belpa                             | 95                 | 95   | 95                    | 95   |
| Tekfen Kültür                     | 100                | 100  | 100                   | 100  |
| Tekfen Turizm                     | 100                | 100  | 100                   | 100  |
| Tekfen Emlak                      | 100                | 100  | 100                   | 100  |
| Tekfen Oz (2)                     | 16,40              | -    | 16,40                 | -    |
| TST Holding                       | 100                | 100  | 100                   | 100  |
| TST Finance                       | 100                | 100  | 100                   | 100  |
| TST Trading                       | 100                | 100  | 100                   | 100  |
| TST Ltd.                          | 100                | 100  | 100                   | 100  |
| Petrofertil Shipping              | 100                | 100  | 100                   | 100  |
| Petrofertil Trading               | 100                | 100  | 100                   | 100  |
| Industrial Supply                 | 100                | 100  | 100                   | 100  |
| Toros Gayrimenkul                 | 100                | 100  | 100                   | 100  |
| Toros Tarım                       | 100                | 100  | 100                   | 100  |
| Tayscb                            | 100                | 100  | 100                   | 100  |
| Toros Terminal                    | 100                | 100  | 100                   | 100  |
| Toros Enerji                      | 100                | 100  | 100                   | 100  |
| H-T Fidecilik                     | 50                 | 50   | 50                    | 50   |
| Türk Arap Gübre                   | 80                 | 80   | 80                    | 80   |
| Tekfen Endüstri                   | 99                 | 99   | 99                    | 99   |
| Toros Gemi                        | 100                | 100  | 100                   | 100  |
| Karaca Giyim                      | 100                | 100  | 100                   | 100  |
| Karaca Pazarlama                  | -                  | 100  | -                     | 100  |
| Tekfen İnşaat                     | 100                | 100  | 100                   | 100  |
| Temaş                             | 100                | 100  | 100                   | 100  |
| Timaş                             | 100                | 100  | 100                   | 100  |
| HMB                               | 100                | 100  | 100                   | 100  |
| Papfen                            | 85                 | 85   | 85                    | 85   |
| Cenub Tikinti                     | 65                 | 65   | 65                    | 65   |
| Tekfen Finance                    | 100                | 100  | 100                   | 100  |
| Tekfen Participations             | 100                | 100  | 100                   | 100  |
| Tekfen International Ltd          | 100                | 100  | 100                   | 100  |
| Tekfen Construction               | 100                | 100  | 100                   | 100  |
| Antalya Stüdyoları                | 100                | 100  | 100                   | 100  |
| Kabloteck                         | 100                | 100  | 100                   | 100  |

(1) The Group has sold 70% shares of Tekfenbank and Tekfen Finansal Kiralama on 16 March 2007. Subsequent to the sale, the Group started to account its investments in Tekfenbank by equity method of accounts.

(2) The company has established at 2007.

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(Amounts are expressed in thousands of New Turkish Lira ("TRY") unless otherwise stated.)

#### 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

##### Consolidation Principles (cont'd):

| Registered Name of the Joint Venture | Rate % (*) |      |
|--------------------------------------|------------|------|
|                                      | 2007       | 2006 |
| Gate J.V.                            | 50         | 50   |
| Azfen J.V.                           | 40         | 40   |
| TÖT J.V.                             | 71         | 71   |
| TTÖ J.V.                             | 25         | 25   |
| OIC J.V.                             | 50         | 25   |
| NCC J.V.                             | 50         | 25   |
| Impresit                             | 100        | 100  |
| CP J.V.(*)                           | 50         | 50   |
| NTY J.V.                             | 33         | 33   |
| GTT J.V.                             | 35         | 35   |
| Tekfen TML J.V.                      | 67         | 67   |
| TGO J.V.                             | 50         | 50   |

(\*) Because of an agreement, made by CP J.V. Group's subsidiary Tekfen Finance has 50% voting power in the management of CP J.V. and owns 50% of CP J.V.'s assets and liabilities.

On acquisition of a subsidiary by the Group, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. Minority interests are calculated by applying the minority ownership rate on the fair value of the net assets. Operational results of the subsidiaries acquired or disposed of during the year are included in the consolidated statements of income effective from the date of acquisition or up to the actual date of disposal, as appropriate.

If the consolidated subsidiaries' total equity is loss (negative), unless there is a strict commitment that such losses will be recovered by the minority, then such losses are not recognized as receivables from minority interest. Minority interest is not calculated until subsequent profits attributable to these subsidiaries are offset against the accumulated losses of these minority shares. Minority interest is not calculated until subsequent profits attributable to these subsidiaries are offset against the accumulated losses of these minority shares.

Where necessary, adjustments are made to the financial statements of subsidiaries to be in compliant with the accounting policies used by other members of the Group.

##### Comparative information and reclassifications to the prior period financial statements:

Consolidated financial statements are prepared comparative to the prior period. If the presentation or classification of the financial statements is changed, in order to confront current year presentation, financial statements of the prior periods are also reclassified in line with the related changes.

##### Offsetting:

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

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#### 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

##### Adoption of new and revised international Financial Reporting Standards:

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007. At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective.

- IFRS 7, "Financial instruments: Disclosures"
- IAS 1, "Presentation of financial statements"

##### IFRS 7, "Financial instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

##### IAS 1, "Presentation of financial statements"

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

##### Standards, amendments and interpretations effective as of 31 December 2007 but not relevant to Group's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company's operations:

|           |   |
|-----------|---|
| IFRS 4,   | "Insurance contracts",  |
| IFRIC 7,  | "Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies", |
| IFRIC 8,  | "Scope of IFRS 2",  |
| IFRIC 9,  | "Reassessment of embedded derivatives",   |
| IFRIC 10, | "Interim financial reporting and impairment".   |

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#### 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

##### Adoption of new and revised international financial reporting standards (cont'd)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- |  |   |
|--|---|
| • IFRIC 11, "IFRS 2 – Group and treasury share transactions"   | • Effective for annual periods beginning on or after 1 March 2007   |
| • IAS 23, "(Amendment) Borrowing costs"  | • Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 8, "Operating segments"   | • Effective for annual periods beginning on or after 1 January 2009 |
| • IFRIC 12, "Service concession arrangements"  | • Effective for annual periods beginning on or after 1 January 2008 |
| • IFRIC 13, "Customer loyalty programmes"  | • Effective for annual periods beginning on or after 1 July 2008    |
| • IFRIC 14, "IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction"                                   | • Effective for annual periods beginning on or after 1 January 2008 |
| • IFRS 2, "Share-based Payment" Amendment relating to vesting conditions and cancellations   | • Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 3, "Business Combinations"  | • Effective for annual periods beginning on or after 1 July 2009    |
| • IAS 27, "Consolidated and Separate Financial Statements"   |   |
| • IAS 28, "Investments in Associates"  |   |
| • IAS 31 "Interests in Joint Ventures" Comprehensive revision on applying the acquisition method   |   |
| • IAS 32, "Financial Instruments: Presentation" Amendments relating to disclosure of puttable instruments and obligations arising on liquidation | • Effective for annual periods beginning on or after 1 January 2009 |
| • IAS 1, "Presentation of Financial Statements"  | • Effective for annual periods beginning on or after 1 January 2009 |

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES**

##### **3.1 Statement of compliance:**

In the framework that the alternative application permitted by the CMB, the financial statements included presentation of financial statements and the content of footnote disclosures have been prepared in accordance with International Financial Reporting Standards ("IFRS") save for accounting standards explanations (Note 2) published by the association

##### **3.2 Basis of preparation:**

The financial statements have been prepared on the historical cost basis except for some of the tangible assets and financial instruments revaluation.

##### **3.3 Basis of presentation of consolidated financial statements:**

The Company and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and tax legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries.

##### **3.4 Inflation accounting:**

As per the CMB's resolution No: 11/367 on March 17, 2005, it is declared that companies operating in Turkey and preparing their financial statements in accordance with the CMB's (included those IFRS applications adopted) Accounting standards effective as of 1 January 2005, shall not be subject to the application of inflation accounting. Consequently, IAS 29 "Financial Reporting in Hyperinflationary Economies" is not applied in the accompanying financial statements.

##### **3.5 Business combinations:**

The acquisition of subsidiaries and businesses are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations", which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.6 Investments in associates:

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

##### 3.7 Interests in joint ventures:

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.8 Revenue Recognition:

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar allowances.

##### *Sale of Goods*

Revenue from sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can measure reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### *Construction Contracts:*

In contracts where third parties undertake the management, control and coordination of the construction activities are referred to as service contracts and they are only recognized as revenues when they are presented to third parties.

When the outcome of a construction contract can be estimated reliably, contract revenue associated with the construction contract shall be recognised by reference to the stage of completion of the contract activity at the balance sheet date. Stage of completion is measured by the proportion of the contract costs incurred for work performed to date divided by the estimated total contract costs. This calculation does not apply if the stage of completion cannot be measured reliably. Changes in construction contract, additional receivable claims and incentive payments are included in the project revenue in accordance with the consent of the employer.

Construction contract costs consist of indirect costs such as; all raw materials and direct labour expenses, indirect labour costs related with contract performance, equipment, maintenance, and depreciation expenses. General administration expenses are expanded when they occur. Provision for cost of estimated loss of incomplete contracts is provided for immediately in the year, which such loss is forecasted. Business efficiency, business conditions, provisions for contract penalties and changes in estimated profitability arising from final contract arrangements because a revision in costs incurred and revenues obtained at the end of the project. Impact of these revisions is accounted for in the year, which such revision is made.

Unbilled work indicates the revenue recognized on construction contracts in excess of billings, and progress billings indicate the billings in excess of the revenue recognized on construction contracts.

Construction group management does not recognize the additional receivables under compensation outside the scope of the contract that may be subject to litigation as income, unless negotiations have reached to an advanced stage such that it is probable that the customer will accept the claim and the amount that is probable will be accepted by the customer can be measured reliably.

##### *Retention receivables from contractors*

The Group's interim progress billings from its clients are subject to retention deductions, which vary, based on the individual agreements. These balances are collected from the clients upon successful completion of the contract at the end of the warranty period. Retention receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

##### *Retention payables to subcontractors*

The Group's interim progress billings to its sub-contractors are subject to retention deductions, which vary, based on the individual agreements. These payables are paid to subcontractors after they successfully complete the guarantee periods. Retention payables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.8 Revenue Recognition (cont'd):

###### *Dividend and interest revenue:*

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

###### *Rental income:*

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease.

##### 3.9 Non-current assets classified as held for sale:

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

##### 3.10 Inventories:

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

Cost of materials that have been delivered to contract site or set aside for use in a contract but not yet installed are included in the cost of project if the materials have been made specially for the contract. In the current year, cost of materials that have been delivered to contract site or set aside for use in a contract but not yet installed are included in the inventory instead of cost of sales if the materials have not been made specially for the contract. The effect of related accounting policy change to the current year is 2,769.

##### 3.11 Property, plant and equipment :

Property plant&equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.11 Property, plant and equipment (cont'd):

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Property, plant and equipment deemed to have indefinite lives, except land, are depreciated over the following useful lives:

|                          | <u>Useful Life</u> |
|--------------------------|--------------------|
| Land improvements        | 2-10 Years         |
| Buildings                | 10-50 Years        |
| Machinery and equipments | 4-25 Years         |
| Vehicles                 | 5 Years            |
| Furniture and fixtures   | 3-15 Years         |
| Leasehold improvements   | 5 Years            |
| Other tangible assets    | 5 Years            |

##### 3.12 Intangible Assets:

###### Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

###### Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to ten years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three years).

Intangible assets are depreciated over the following useful lives:

|                         | <u>Useful Life</u> |
|-------------------------|--------------------|
| Rights                  | 3-10 Years         |
| Other intangible assets | 3-10 Years         |

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.13 Investment property:

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Depreciation is provided on investment property on a straight line basis.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

##### 3.14 Borrowing Costs:

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

##### 3.15 Taxation and deferred income taxes:

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

The corporate earnings of the real persons and corporations that are resident, acquired from their affiliates at abroad that are controlled by them separately or jointly and directly or indirectly, by virtue of having at least 50% of the shares, profit shares or the voting rights, shall be subject to corporate tax in Turkey, distributed or not distributed when all the conditions, that are explained in Turkish Corporate Tax Law article 7, are met.

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.15 Taxation and deferred income taxes (cont'd):

###### Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

###### Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.16 Retirement pay provision:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits".

##### 3.17 Foreign currency transactions:

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TRY, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than TRY (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TRY using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.18 Leasing – the Group as lessor:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

##### 3.19 Leasing – the Group as lessee:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

##### 3.20 Financial assets:

Financial investments are recognised and derecognized on trade date where the purchase or sales of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.20 Financial assets (cont'd):

###### Financial assets at FVTPL

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

###### Available for sale financial assets

Investments (a) other than held-to-maturity debt securities and (b) held for trading securities are classified as available-for-sale, and are measured at subsequent reporting dates at fair value except available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

###### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

###### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that because of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.20 Financial assets (cont'd):

###### Impairment of financial assets (cont'd)

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

###### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### 3.21 Financial liabilities:

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

###### Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are initially measured at fair value subsequently stated at fair value and subsequently stated at the fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. The net gain or loss recognised in profit or loss compass the interest paid for financial liability.

###### Other financial liabilities.

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### 3.22 Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

##### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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**4. CASH AND CASH EQUIVALENTS**

|                     | 31 December<br>2007 | 31 December<br>2006 |
|---------------------|---------------------|---------------------|
| Cash on hand        | 1,203               | 1,799               |
| Demand deposits     | 50,511              | 105,738             |
| Time deposits       | 466,503             | 97,042              |
| Other liquid assets | 3,436               | 4,905               |
|                     | <u>521,653</u>      | <u>209,484</u>      |

Time Deposits

| Currency Type    | Interest Rate<br>(%) | Maturity Date     | Currency<br>Amount (000) | 31 December<br>2007 |
|------------------|----------------------|-------------------|--------------------------|---------------------|
| USD              | 4.00-5.80            | Jan-June 2008     | 58,646                   | 68,305              |
| EUR              | 1.50-4.35            | Jan-June 2008     | 6,281                    | 10,742              |
| TRY              | 9.00-18.50           | Jan-February 2008 | -                        | 381,617             |
| Interest accrual |                      |                   |                          | 5,839               |
|                  |                      |                   |                          | <u>466,503</u>      |

| Currency Type    | Interest Rate<br>(%) | Maturity Date | Currency<br>Amount (000) | 31 December<br>2006 |
|------------------|----------------------|---------------|--------------------------|---------------------|
| USD              | 3.4-6.00             | June 2007     | 43,172                   | 60,682              |
| EUR              | 1.75-4.76            | January 2007  | 13,978                   | 25,880              |
| TRY              | 10.00-19.00          | February 2007 | -                        | 9,610               |
| Interest accrual |                      |               |                          | 870                 |
|                  |                      |               |                          | <u>97,042</u>       |

**5. MARKETABLE SECURITIES (NET)**

None.

**6. BANK LOANS**

|                                       | 31 December<br>2007 | 31 December<br>2006 |
|---------------------------------------|---------------------|---------------------|
| Short term loans                      | 309,143             | 462,515             |
| Short term portion of long term loans | 8,504               | 81,943              |
| Total short term bank loans           | <u>317,647</u>      | <u>544,458</u>      |
| Long term loans                       | 7,055               | 47,278              |
| Total long term loans                 | <u>7,055</u>        | <u>47,278</u>       |
| Total bank loans                      | <u>324,702</u>      | <u>591,736</u>      |

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**6. BANK LOANS (cont'd)**

Repayment schedule of bank loans is as follows:

|                 | 31 December<br>2007 | 31 December<br>2006 |
|-----------------|---------------------|---------------------|
| Within 1 year   | 317,647             | 544,458             |
| Within 1-2 year | 6,060               | 31,528              |
| Within 2-3 year | 766                 | 14,683              |
| Within 3-4 year | 105                 | 1,067               |
| Over 5 years    | 124                 | -                   |
|                 | <u>324,702</u>      | <u>591,736</u>      |

Short term bank loans are as follows:

| Original<br>currency | Weighted average<br>interest rate<br>% | Currency<br>amount | 31 December<br>2007 |
|----------------------|--|--------------------|---------------------|
| USD                  | 6.24                                   | 225,399            | 262,523             |
| EUR                  | 5.96                                   | 7,677              | 13,130              |
| MAD                  | 5.50                                   | 110,148            | 16,683              |
| QAR                  | 7.05                                   | 26,142             | 8,341               |
| TRY                  |  | -                  | 2,599               |
| Interest accrual     |  |                    | 5,867               |
|                      |  |                    | <u>309,143</u>      |

| Original<br>currency | Weighted average<br>interest rate<br>% | Currency<br>amount | 31 December<br>2006 |
|----------------------|--|--------------------|---------------------|
| USD                  | 6.49                                   | 265,772            | 373,569             |
| EUR                  | 5.66                                   | 19,278             | 35,693              |
| MAD                  | 5.75                                   | 148,834            | 24,813              |
| QAR                  | 7.05                                   | 38,600             | 14,865              |
| TRY                  | 22.00                                  | -                  | 871                 |
| Interest accrual     |  |                    | 12,704              |
|                      |  |                    | <u>462,515</u>      |

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**6. BANK LOANS (cont'd)**

Current portions of long term borrowings are as follows:

| <u>Original<br/>currency</u> | <u>Weighted average<br/>interest rate<br/>%</u> | <u>Currency<br/>amount</u> | <u>31 December<br/>2007</u> |
|------------------------------|---|----------------------------|-----------------------------|
| USD                          | 5.84  | 6,958                      | 8,104                       |
| EUR                          | 5.93  | 149                        | 255                         |
| Interest accrual             |   |                            | 145                         |
|                              |   |                            | <u>8,504</u>                |

| <u>Original<br/>currency</u> | <u>Weighted average<br/>interest rate<br/>%</u> | <u>Currency<br/>amount</u> | <u>31 December<br/>2006</u> |
|------------------------------|---|----------------------------|-----------------------------|
| USD                          | 6.11  | 55,788                     | 78,416                      |
| EUR                          | 5.74  | 83                         | 153                         |
| Interest accrual             |   |                            | 3,374                       |
|                              |   |                            | <u>81,943</u>               |

Long term portion of long term bank loans consists of the following:

| <u>Original<br/>currency</u> | <u>Weighted average<br/>interest rate<br/>%</u> | <u>Currency<br/>amount</u> | <u>31 December<br/>2007</u> |
|------------------------------|---|----------------------------|-----------------------------|
| USD                          | 5.85  | 2,252                      | 2,623                       |
| EUR                          | 5.61  | 2,591                      | 4,432                       |
|                              |   |                            | <u>7,055</u>                |

| <u>Original<br/>currency</u> | <u>Weighted average<br/>interest rate<br/>%</u> | <u>Currency<br/>amount</u> | <u>31 December<br/>2006</u> |
|------------------------------|---|----------------------------|-----------------------------|
| USD                          | 6.79  | 30,176                     | 42,837                      |
| EUR                          | 5.53  | 2,399                      | 4,441                       |
|                              |   |                            | <u>47,278</u>               |

As of 31 December 2007, the Group has given USD 24,191 thousand of letters of guarantee (TRY 28,175 thousand), EUR 3,011 thousand and 3,205 mortgage (31 December 2006: USD 40,503 thousand of letters of guarantee (TRY 52,840 thousand); EUR 3,011 thousand (TRY 5,575 thousand), 3,205 mortgage).

The Group has bank loans amounting to USD 2,699 thousand (TRY 3,109 thousand), EUR 10,418 thousand (TRY 17,816 thousand) and MAD 110,418 thousand (TRY 16,687 thousand) with fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

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**7. TRADE RECEIVABLES AND PAYABLES**

Short and long term trade receivables:

|   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| <u>Short term trade receivables (net)</u> |                     |                     |
| Contract receivables                      | 234,150             | 218,154             |
| Agriculture segment receivables           | 23,029              | 6,575               |
| Trade receivables                         | 23,554              | 37,155              |
| Provision for doubtful receivables        | (12,928)            | (16,434)            |
| Notes receivables                         | 48,397              | 35,370              |
| Discount on notes receivables             | (1,973)             | (2,391)             |
| Retention receivables (Note:13)           | 7,993               | 17,477              |
| Deposits and guarantees given             | 3,229               | 10,852              |
| Other                                     | 88                  | 73                  |
|   | <u>325,539</u>      | <u>306,831</u>      |
|   |                     |                     |
| <u>Long term trade receivables (net)</u>  |                     |                     |
| Legally approved claims                   | 767                 | -                   |
| Retention receivables (Note:13)           | 8,392               | 3,985               |
| Deposits and guarantees given             | 3,630               | 1,359               |
|   | <u>12,789</u>       | <u>5,344</u>        |

Average maturity date vary between the segments. Average maturities for contract, agriculture and other segments are approximately 165, 50 and 55 days, respectively.

Collaterals received in relation to trade receivables that are neither past due nor impaired is as follows:

|                   | 31 December<br>2007 | 31 December<br>2006 |
|-------------------|---------------------|---------------------|
| Guarantee letters | 99,690              | 43,475              |
| Pledges           | 973                 | 757                 |
|                   | <u>100,663</u>      | <u>44,232</u>       |

The Group estimates its provision for doubtful receivables based on past experience. All provided doubtful receivable provisions are general provisions. Reserve is made for uncollateralized bad debts. The movement of reserve for doubtful receivables for the years 2007 and 2006 are as follows:

|                             | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|-----------------------------|----------------------------------|----------------------------------|
| Opening                     | (16,434)                         | (12,046)                         |
| Charge for the period       | (1,571)                          | (3,903)                          |
| Collected                   | 2,610                            | 205                              |
| Write off of bad debts      | 1,528                            | -                                |
| Currency translation effect | 939                              | (690)                            |
| Closing balance             | <u>(12,928)</u>                  | <u>(16,434)</u>                  |

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### 7. TRADE RECEIVABLES AND PAYABLES (cont'd)

In determining the recoverability of trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the Group management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

|   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| <u>Short term trade payables (net):</u>           |                     |                     |
| Contract payables (*)                             | 127,479             | 195,455             |
| Trade payables related to agricultural operations | 130,890             | 160,509             |
| Other trade payables                              | 49,870              | 14,190              |
| Notes payables                                    | 22,783              | 17,114              |
| Discount of notes payables and trade payables     | (1,453)             | (1,354)             |
| Deposits and guarantees received                  | 1,318               | 2,054               |
| Retention payables                                | 6,963               | 7,272               |
| Other payables                                    | 1,275               | -                   |
|   | <u>339,125</u>      | <u>395,240</u>      |
|   |                     |                     |
|   | 31 December<br>2007 | 31 December<br>2006 |
| <u>Long term trade payables (net):</u>            |                     |                     |
| Trade payables                                    | 40                  | 51                  |
| Contract payables                                 | 748                 | -                   |
| Retention payables                                | 797                 | 1,917               |
| Notes payables                                    | -                   | 17,710              |
| Discount of notes payables                        | (83)                | (1,439)             |
| Deposits and guarantees received                  | 303                 | 585                 |
|   | <u>1,805</u>        | <u>18,824</u>       |

(\*) As of 31 December 2006, letter of credit, amounting to 21,890, with the maturity date of 2 January 2007 is issued for purchasing construction materials.

The average payable period for Group's trade payables changes according to the segments. For agriculture segment average payable period of purchases from foreign suppliers are 85 days and 16 days for local suppliers. The average payable period for contract and other segment are 83 days and 59 days respectively. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

### 8. FINANCE LEASE RECEIVABLES AND OBLIGATIONS UNDER FINANCE LEASES

Finance lease receivables of the Group consists of a long-term rent agreement related with an hospital building, that's ownership passed to the Group in return of a doubtful receivable. Details of finance lease receivable are as follows: .

|                                      | 31 December<br>2007 | 31 December<br>2006 |
|--------------------------------------|---------------------|---------------------|
| Short term finance lease receivables | 862                 | 190                 |
| Long term finance lease receivables  | 10,772              | 11,333              |
|                                      | <u>11,634</u>       | <u>11,523</u>       |

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**8. FINANCE LEASE RECEIVABLES AND OBLIGATIONS UNDER FINANCE LEASES (cont'd)**

Details of finance lease receivables are as follow:

Details of obligations under finance lease are as follow:

|  | Minimum Lease Payments |                     | Present Value of<br>Minimum Lease Payments |                     |
|--|------------------------|---------------------|--|---------------------|
|  | 31 December<br>2007    | 31 December<br>2006 | 31 December<br>2007                        | 31 December<br>2006 |
| Payments amounts for obligations under finance leases:   |                        |                     |  |                     |
| Within one year  | 37,778                 | 16,962              | 30,203                                     | 14,049              |
| Within 1-5 year  | 76,272                 | 18,489              | 68,084                                     | 16,814              |
|  | <u>114,050</u>         | <u>35,451</u>       | <u>98,287</u>                              | <u>30,863</u>       |
| Less: finance expenses related to following years        | (15,763)               | (4,588)             | -  | -                   |
| Present value of obligations finance leases:             | <u>-</u>               | <u>-</u>            | <u>-</u>                                   | <u>-</u>            |
| Less: Payments within 12 months (in short term payables) | <u>98,287</u>          | <u>30,863</u>       | <u>98,287</u>                              | <u>30,863</u>       |
| Due beyond 12 months                                     |                        |                     | <u>30,203</u>                              | <u>14,049</u>       |
|  |                        |                     | <u>68,084</u>                              | <u>16,814</u>       |

It is the Group's policy to lease some of its furniture, fixtures, and equipment under finance leases. The average lease term is 4 years (2006: 4 years). For the year end 31 December 2007, the effective average borrowing rate was 3.27% (31 December 2006: 3.27%). Finance lease obligations currency type distribution was shown at Note: 29. The fair value of the Group's lease obligations approximates their carrying amount. There are guarantees of Tekfen Holding on all the fixed assets acquired by these finance leases.

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#### 9. RELATED PARTY TRANSACTIONS

The Group has various transactions with related parties during the course of its operations. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this note.

As for the periods ended 31 December 2007 and 2006, details of its significant transactions with related parties are as follow:

##### a) Due from/to related parties:

| <u>Short Term:</u>                        | 31 December 2007   |                    | 31 December 2006   |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | Amounts owed<br>by | Amounts owed<br>to | Amounts owed<br>by | Amounts owed<br>to |
| <u>Related parties</u>                    |                    |                    |                    |                    |
| Tekzen Paz. İth. İhr. İnş. Mlz. Yat. A.Ş. | 289                | -                  | 255                | 9                  |
| Papfen Mersin Serbest Bölgesi             | 136                | -                  | 327                | -                  |
| Tekfenbank                                | 480                | -                  | -                  | -                  |
| Tekfen Oz                                 | 7,551              | -                  | -                  | -                  |
| Other                                     | 2,426              | 498                | 462                | 601                |
|   | <u>10,882</u>      | <u>498</u>         | <u>1,044</u>       | <u>610</u>         |
| <u>Participants in Joint Ventures</u>     |                    |                    |                    |                    |
| TÖT J.V.                                  | 634                | -                  | 158                | 201                |
| Azfen J.V.                                | 932                | 84                 | 516                | -                  |
| OIC J.V.                                  | 51                 | -                  | 1,323              | -                  |
| NCC J.V.                                  | 265                | -                  | 71                 | 9,695              |
| NTY J.V.                                  | -                  | 293                | -                  | 314                |
| Gate J.V.                                 | 2,555              | -                  | 12,137             | -                  |
| Tekfen TML J.V.                           | 556                | -                  | 259                | -                  |
| Other                                     | 157                | 8                  | 179                | 825                |
|   | <u>5,150</u>       | <u>385</u>         | <u>14,643</u>      | <u>11,035</u>      |
| <u>Related parties (*)</u>                |                    |                    |                    |                    |
| Key management personnel                  | 712                | 824                | -                  | -                  |
| Total                                     | <u>16,744</u>      | <u>1,707</u>       | <u>15,687</u>      | <u>11,645</u>      |

(\*) Advances received by Tekfen Emlak for Bodrum Yalıkavak Residents Project. The project is planned to be completed by July 2008.

Owed by and owed to balances are unsecured and will be settled in cash. No bad debt provision is made for balances owed by related parties in the current year

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**9. RELATED PARTY TRANSACTIONS (cont'd)**

b) Transactions within the year:

|                                       | 1 January-31 December 2007 |            | 1 January-31 December 2006 |           |
|---------------------------------------|----------------------------|------------|----------------------------|-----------|
|                                       | Sales                      | Purchases  | Sales                      | Purchases |
| <u>Participants in joint ventures</u> |                            |            |                            |           |
| Gate J.V.                             | 3,772                      | -          | 6,558                      | -         |
| OIC J.V.                              | 5,109                      | -          | 4,821                      | -         |
| NCC J.V.                              | 30,771                     | -          | 6,546                      | -         |
| Tekfen TML J.V.                       | 2,347                      | -          | -                          | -         |
| Other                                 | 815                        | 131        | 392                        | 54        |
|                                       | <u>42,814</u>              | <u>131</u> | <u>18,317</u>              | <u>54</u> |
| <u>Sales to Shareholders (*)</u>      |                            |            |                            |           |
| Key management personnel              | 5,680                      | -          | -                          | -         |

(\*) Comprise of sales related to Bodrum Yalıkavak Residents.

Services Rendered

|                                       | 1 January-31 December 2007 |              | 1 January-31 December 2006 |              |
|---------------------------------------|----------------------------|--------------|----------------------------|--------------|
|                                       | Rent Income                | Rent Expense | Rent Income                | Rent Expense |
| <u>Related parties</u>                |                            |              |                            |              |
| Tekzen Paz. İth. İhr. İnş.            |                            |              |                            |              |
| Mlz. Yat. A.Ş.                        | 360                        | -            | 203                        | -            |
| Other                                 | 44                         | -            | 16                         | -            |
|                                       | <u>404</u>                 | <u>-</u>     | <u>219</u>                 | <u>-</u>     |
| <u>Participants in joint ventures</u> |                            |              |                            |              |
| Azfen J.V.                            | 1,069                      | -            | 825                        | -            |
| Tekfen TML J.V.                       | 599                        | -            | -                          | -            |
| NTY J.V.                              | 33                         | -            | 180                        | -            |
| Other                                 | 577                        | -            | 52                         | -            |
|                                       | <u>2,278</u>               | <u>-</u>     | <u>1,057</u>               | <u>-</u>     |

Financing Transactions

|                                       | 1 January-31 December 2007 |                 | 1 January-31 December 2006 |                 |
|---------------------------------------|----------------------------|-----------------|----------------------------|-----------------|
|                                       | Finance Income             | Finance Expense | Finance Income             | Finance Expense |
| <u>Participants in joint ventures</u> |                            |                 |                            |                 |
| NTY J.V.                              | -                          | -               | 81                         | 138             |
| Gate J.V.                             | 1,573                      | -               | -                          | -               |
|                                       | <u>1,573</u>               | <u>-</u>        | <u>81</u>                  | <u>138</u>      |

Other transactions

|           | 1 January-31 December 2007 |               | 1 January-31 December 2006 |               |
|-----------|----------------------------|---------------|----------------------------|---------------|
|           | Other Income               | Other Expense | Other Income               | Other Expense |
| Tekfen Oz | 429                        | -             | -                          | -             |

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### 10. OTHER RECEIVABLES / PAYABLES

| <u>Other short term receivables (net)</u>         | <u>31 December<br/>2007</u> | <u>31 December<br/>2006</u> |
|---|-----------------------------|-----------------------------|
| Withholding tax of ongoing construction contracts | 12,984                      | 23,396                      |
| Business advances given                           | 8,769                       | 12,640                      |
| VAT receivables                                   | 18,583                      | 17,322                      |
| Other receivables                                 | 4,768                       | 8,145                       |
| Blocked deposits                                  | 6,146                       | -                           |
| Provision for blocked deposits (*) (Note: 35)     | (6,146)                     | -                           |
| Prepaid taxes and funds                           | 9,185                       | 3,694                       |
| Advances given to personnel                       | 838                         | 300                         |
| VAT receivable arising from export sales          | 306                         | 2,470                       |
|   | <u>55,433</u>               | <u>67,967</u>               |
|   | <u>31 December<br/>2007</u> | <u>31 December<br/>2006</u> |
| <u>Other long term receivables (net)</u>          |                             |                             |
| VAT carried forward                               | 57,236                      | 56,393                      |
| Withholding tax of ongoing construction contracts | 5,623                       | 5,207                       |
| Other receivables                                 | -                           | 134                         |
|   | <u>62,859</u>               | <u>61,734</u>               |

(\*) At the time of sale of its subsidiary Tekfenbank, the Group has invested 6,146 blocked deposit to Tekfenbank in return of liabilities of Tekfenbank's long term security Tümteks Tekstil Sanayi ve Ticaret A.Ş. ("Tümteks") to Tekfenbank. According to "Cash Commitment Agreement" between Tekfenbank and the Company, dated 30 May 2007, it is agreed that in case of Tümteks's bankruptcy, it's exclusion from İstanbul Stock Exchange's quotation, cancellation of Tümteks's stock operations on İstanbul Stock Exchange for an indefinite period or any loss of Tekfenbank regarding Tümteks stocks provided that the loss does not exceed 6,146, the total amount of incurred loss will be collected by Tekfenbank A.Ş. from blocked deposit account. As of the report date Tümteks has been transferred to trustee and has (43,361) loss of net assets. Consequently, provision is reserved for the blocked deposit stated above in the accompanying financial statements.

| <u>Other short term payables (net):</u> | <u>31 December<br/>2007</u> | <u>31 December<br/>2006</u> |
|---|-----------------------------|-----------------------------|
| Due to Privatization Office(**)         | 10,183                      | 13,019                      |
| Taxes and funds payable                 | 5,687                       | 7,774                       |
| Due to personnel                        | 9,399                       | 9,811                       |
| Social security withholdings            | 2,426                       | 3,216                       |
| Dividend payable                        | 5,534                       | 3,338                       |
| Other payables                          | 890                         | 392                         |
| Social benefit payables to employees    | 1,675                       | -                           |
|   | <u>35,794</u>               | <u>37,550</u>               |
|   | <u>31 December<br/>2007</u> | <u>31 December<br/>2006</u> |
| <u>Other long term payables (net):</u>  |                             |                             |
| Due to Privatization Office(**)         | 9,351                       | 22,449                      |

(\*\*) Payable to Privatization Office is associated with the acquisition of Samsun Gübre Sanayi A.Ş. Samsun Gübre Sanayi A.Ş. merged with Toros Gübre in 2005.

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#### 11. BIOLOGICAL ASSETS

None.

#### 12. INVENTORIES (NET)

|   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| Raw materials                             | 41,551              | 26,745              |
| Work in process                           | 25,422              | 29,529              |
| Finished goods                            | 24,212              | 27,027              |
| Contract work in process (*)              | 7,055               | 16,159              |
| Trade goods                               | 52,573              | 64,120              |
| Goods in transit and order advances given | 77,671              | 54,119              |
| Other inventories                         | 20,914              | 18,400              |
|   | <u>249,398</u>      | <u>236,099</u>      |

(\*) Inventories associated with the unsold houses consist of cost of land used for the construction and other costs related with Tekfen Emlak Project are shown as inventory.

Cost of materials that have been delivered to contract site or set aside for use in a contract but not yet installed are included in the inventory instead of cost of sales if the materials have not been manufactured specially for the contract (Note: 3.10).

#### 13. CONSTRUCTION CONTRACTS

Construction contracts are presented in the accompanying consolidated balance sheets as follows:

|  | 31 December<br>2007 | 31 December<br>2006 |
|--|---------------------|---------------------|
| Construction cost incurred plus                  | 1,856,187           | 1,935,957           |
| Recognised profit less recognised losses to date | 172,359             | 281,071             |
|  | <u>2,028,546</u>    | <u>2,217,028</u>    |
| Less: progress billing                           | (1,809,984)         | (2,073,080)         |
|  | <u>218,562</u>      | <u>143,948</u>      |

Costs and billings incurred on uncompleted contracts are as follows

|   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| From customers under construction contracts | 254,824             | 205,903             |
| To customers under construction contract    | (36,262)            | (61,955)            |
|   | <u>218,562</u>      | <u>143,948</u>      |

As of 31 December 2007, total retention receivables amount to 16,385 (31 December 2006: 20,462).

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#### 13. CONSTRUCTION CONTRACTS (cont'd)

Unbilled costs related to ongoing contracts are as follows:

|   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| <u>Receivables from uncompleted contracts</u> |                     |                     |
| Contracts undersigned abroad                  | 239,439             | 144,314             |
| Contracts undersigned in Turkey               | 15,385              | 61,589              |
|   | <u>254,824</u>      | <u>205,903</u>      |
| <u>Payables from uncompleted contracts</u>    |                     |                     |
| Contracts undersigned abroad                  | (36,262)            | (60,535)            |
| Contracts undersigned in Turkey               | -                   | (1,420)             |
|   | <u>(36,262)</u>     | <u>(61,955)</u>     |
|   | <u>218,562</u>      | <u>143,948</u>      |

The Group has 210,747 of advances received for contract projects (31 December 2006: 125,825) (Note: 21)

In the audit report dated 3 September 2007, regarding the Group's consolidated financial statements as at 30 June 2007 it was indicated that there were news bulletins claiming that operations of the main employer of the Group's joint ventures in Kazakhstan namely Agip Kazakhstan North Caspian Operating Company N.V. ("Agip Kco") were ceased for three months due to legal disputes with Kazakhstan government regarding the Agip Kco's violation of the environmental regulations and damage given to environment, however these news bulletins were not confirmed by Agip Kco. In the subsequent period there has been news in the press indicating that Agip Kco. And Kazakh government came to a resolution amount these matters.

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**14. DEFERRED TAX ASSETS AND LIABILITIES****Deferred tax**

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

|  | 31 December<br>2007               | 31 December<br>2006               |
|--|-----------------------------------|-----------------------------------|
| <b><u>Components of deferred tax (assets) / liabilities:</u></b>                             |                                   |                                   |
| Restatement and depreciation / amortization<br>differences of tangible and intangible assets | 2,722                             | 5,305                             |
| Provision for employment termination benefits<br>and vacation liability                      | (5,177)                           | (4,262)                           |
| Investment incentive   | (1,577)                           | (892)                             |
| Contract costs and progress billings (net)   | 39,041                            | 20,843                            |
| Obligations under finance leases   | (3,583)                           | (648)                             |
| Provision for doubtful receivables   | (5)                               | (642)                             |
| Effect of valuation  | 1,340                             | (1,243)                           |
| Effect of income accruals  | 900                               | 3,006                             |
| Tax losses carried forward   | (45,141)                          | (46,094)                          |
| Povision for tax losses carried forward  | 196                               | -                                 |
| Available for sale investments   | 2,165                             | 2,074                             |
| Provision for premium payments   | (291)                             | (359)                             |
| Other  | (5,700)                           | (638)                             |
| Deferred tax asset   | <u>(15,110)</u>                   | <u>(23,550)</u>                   |
| Provision for deferred tax assets  | 6,664                             | 12,450                            |
|  | <u>(8,446)</u>                    | <u>(11,100)</u>                   |
| Deferred tax asset   | (39,385)                          | (58,042)                          |
| Deferred tax liability   | 30,939                            | 46,942                            |
|  | <u>(8,446)</u>                    | <u>(11,100)</u>                   |
|  | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
| <b><u>Deferred tax asset movement</u></b>  |                                   |                                   |
| Opening balance  | (11,100)                          | (44,496)                          |
| Effect of discontinued operations  | -                                 | 5,107                             |
| Deferred tax expense (Note:41)   | 2,598                             | 25,195                            |
| Tax effect of available for sale investments   | 111                               | 2,066                             |
| Currency translation effect  | (55)                              | 1,028                             |
| Closing balance  | <u>(8,446)</u>                    | <u>(11,100)</u>                   |

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**15. OTHER CURRENT/NON-CURRENT ASSETS AND LIABILITIES**

|                                     | 31 December<br>2007 | 31 December<br>2006 |
|-------------------------------------|---------------------|---------------------|
| <u>Other current assets</u>         |                     |                     |
| Prepaid expenses                    | 8,850               | 7,880               |
| Income accruals                     | 140                 | 2,920               |
|                                     | <u>8,990</u>        | <u>10,800</u>       |
| <u>Other non-current assets</u>     |                     |                     |
| Prepaid expenses                    | 1,334               | 1,902               |
| <u>Other short-term liabilities</u> |                     |                     |
| Expense accruals (*)                | 13,781              | 23,353              |
| Deferred revenues                   | 3,395               | 2,052               |
|                                     | <u>17,176</u>       | <u>25,405</u>       |

(\*) In the current period, due to a delay in one of the construction contract the Group reserved for these delay penalties amounting to 2,713 (2,329,589 USD) in the accompanying consolidated financial statements. (31 December 2006: 3,099 (2,201,493 USD)).

**16. FINANCIAL ASSETS (NET)**

|   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| Available for sale investments  | 59,438              | 60,607              |
| Group's share on net assets of investments<br>in associates consolidated by equity method | 84,282              | -                   |
|   | <u>143,720</u>      | <u>60,607</u>       |

Details of available for sale financial assets are as follow:

| <u>Companies</u>                                   | Share<br>% | 31 December<br>2007 | Share<br>% | 31 December<br>2006 |
|--|------------|---------------------|------------|---------------------|
| Akmerkez Gayrimenkul Yatırım Ortaklığı A.Ş. (*)    | 10.79      | 57,268              | 10.79      | 55,051              |
| Sinai ve Mali Yatırımlar Holding A.Ş.              | 0.02       | 2,861               | 0.02       | 2,861               |
| Mersin Serbest Bölge İşleticisi A.Ş.               | 9.56       | 898                 | 9.56       | 898                 |
| Hazera Toros Tohumculuk A.Ş. (**)                  | 50.00      | 1,597               | 50.00      | 1,597               |
| Other  |            | 2,020               |            | 2,401               |
|  |            | <u>64,644</u>       |            | <u>62,808</u>       |
| <u>Less: Allowance for diminution in value (-)</u> |            |                     |            |                     |
| Hazera Toros Tohumculuk A.Ş.                       |            | (1,597)             |            | (1,597)             |
| Sinai ve Mali Yatırımlar Holding A.Ş.              |            | (2,861)             |            | -                   |
| Other  |            | (748)               |            | (604)               |
|  |            | <u>(5,206)</u>      |            | <u>(2,201)</u>      |
|  |            | <u>59,438</u>       |            | <u>60,607</u>       |

(\*) Financial assets are carried at fair value; other financial assets are carried at cost less any impairment loss in the accompanying financial statements.

(\*\*) Hazera Toros is not included in the consolidation since the assets and liabilities of this company are deemed immaterial taken the financial statements as a whole.

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### 16. FINANCIAL ASSETS (cont'd)

Listed available for sale investments are carried at quoted market prices. The difference of 41,975 (31 December 2006: 39,500) in the fair value of the listed available for sale investments traded in active markets is recognised directly in equity.

7,376 (31 December 2006: 7,757) of the above unlisted available for sale equity investments that do not have a quoted market value and their fair values cannot be reliably measured as the range of reasonable fair value estimates is significant and the probabilities of the various estimates can not be reasonably assessed.

Subsidiaries that are accounted with equity method and their summary financial information are as follows:

|   | 31 December<br>2007   | 31 December<br>2006   |
|---|---|---|
| Tekfenbank                                    | 82,361  | -   |
| Tekfen Oz                                     | 1,921   | -   |
|   | <u>84,282</u>   | <u>-</u>  |
|   | <u>31 December 2007</u>   |   |
| <u>Financial Position</u>                     | <u>Tekfenbank</u>   | <u>Tekfen Oz</u>  |
| Total assets                                  | 2,793,836   | 19,279  |
| Total liabilities                             | 2,517,206   | 7,569   |
| Net assets                                    | <u>276,630</u>  | <u>11,710</u>   |
| Share of the Group to Tekfenbank              | 29.13%  | 16.40%  |
| Group's share in assets                       | 80,582  | 1,921   |
| Effect of purchased Tekfenbank shares in 2007 | 1,779   | -   |
| Total   | <u>82,361</u>   | <u>1,921</u>  |
|   | <u>1 January-31 December 2007</u>                               |   |
|   | <u>Net profit / (loss)<br/>realized for the<br/>period 2007</u> | <u>Group's share in<br/>net profit / (loss)<br/>(Note:38)</u> |
| Tekfenbank (*)                                | 29,616  | 8,628   |
| Tekfen Oz                                     | (1,005)   | (165)   |
|   |   | <u>8,463</u>  |

(\*) Sale of 70% share of Tekfenbank has occurred on 16 March 2007. After this date, the Group consolidated Tekfenbank based on the net profit for the period between 16 March 2007 and 31 December 2007 with equity method in the accompanying financial statements.

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

None.

**18. INVESTMENT PROPERTY (NET)**

As of 31 December 2007 and 31 December 2006, details of investment properties are as follows:

|  | <u>Land and Land<br/>Improvements</u> | <u>Building</u> | <u>Total</u>    |
|--|---------------------------------------|-----------------|-----------------|
| <u>Cost</u>                              |                                       |                 |                 |
| Opening balance as of 1 January 2007     | 2,583                                 | 133,553         | 136,136         |
| Currency transaction difference          | 165                                   | -               | 165             |
| Transfers                                | -                                     | (1,016)         | (1,016)         |
| Closing balance                          | <u>2,748</u>                          | <u>132,537</u>  | <u>135,285</u>  |
| <u>Accumulated Depreciation</u>          |                                       |                 |                 |
| Opening balance as of 1 January 2007     | -                                     | (16,270)        | (16,270)        |
| Charge for the year                      | -                                     | (3,052)         | (3,052)         |
| Closing balance                          | -                                     | <u>(19,322)</u> | <u>(19,322)</u> |
| Carrying value as of<br>31 December 2007 | <u>2,748</u>                          | <u>113,215</u>  | <u>115,963</u>  |

|  | <u>Land and Land<br/>Improvements</u> | <u>Building</u> | <u>Total</u>    |
|--|---------------------------------------|-----------------|-----------------|
| <u>Cost</u>                                    |                                       |                 |                 |
| Opening balance as of 1 January 2006           | 2,339                                 | 144,884         | 147,223         |
| Currency transaction difference                | 244                                   | -               | 244             |
| Reclassification to<br>discontinued operations | -                                     | -               | -               |
|  | -                                     | (12,346)        | (12,346)        |
| Disposals                                      | -                                     | (470)           | (470)           |
| Transfers                                      | -                                     | 1,485           | 1,485           |
| Closing balance                                | <u>2,583</u>                          | <u>133,553</u>  | <u>136,136</u>  |
| <u>Accumulated Depreciation</u>                |                                       |                 |                 |
| Opening balance as of 1 January 2006           | -                                     | (13,507)        | (13,507)        |
| Reclassification to<br>discontinued operations | -                                     | 1,089           | 1,089           |
| Depreciation charge for the year               | -                                     | (3,852)         | (3,852)         |
| Closing balance                                | -                                     | <u>(16,270)</u> | <u>(16,270)</u> |
| Carrying value as of<br>31 December 2006       | <u>2,583</u>                          | <u>117,283</u>  | <u>119,866</u>  |

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#### 18. INVESTMENT PROPERTY (NET) (cont'd)

Investment property includes buildings over rental income earned and lands that are hold for the investment purposes. Useful life of investment property is 50 years.

For the year ended 31 December 2007 total rental income earned from investment properties is 7,170 (31 December 2006: 9,225) and depreciation charge calculated for the year end 31 December 2007 is 3,052 (31 December 2006: 3,852). Direct operating expenses arising on the investment properties in the period amounted to 2,835.

The fair value of the Group's investment property at 31 December 2007 has been arrived based on a valuation carried out at that date by TSKB Gayrimenkul Degerleme A.Ş. ("TSKB Gayrimenkul") independent expertise not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair market value of the investment properties is 262,937 according to the valuation carried out by TSKB Gayrimenkul.

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**19. PROPERTY, PLANT AND EQUIPMENT (NET)**

| <u>Cost Value</u>                               | Land & land improvement | Buildings | Machinery & equipment | Vehicles | Furniture & fixtures | Construction in progress & other tangible assets | Leasehold improvement | Total       |
|---|-------------------------|-----------|-----------------------|----------|----------------------|--|-----------------------|-------------|
| Opening balance as of 1 January 2007            | 237,200                 | 228,427   | 976,761               | 40,489   | 79,265               | 23,143   | 115,055               | 1,700,340   |
| Currency transaction effect                     | (19,418)                | (9,946)   | (80,724)              | (5,685)  | (12,017)             | (205)  | (678)                 | (128,673)   |
| Additions                                       | 16,310                  | 1,258     | 24,764                | 2,858    | 6,000                | 20,628   | 33                    | 71,851      |
| Tangible assets acquired through finance leases | 5,395                   | -         | 71,358                | -        | -                    | -  | -                     | 76,753      |
| Disposals                                       | (8,906)                 | (8,059)   | (5,795)               | (7,764)  | (2,157)              | (12)   | (317)                 | (33,010)    |
| Transfers from investment property              | -                       | 1,016     | -                     | -        | -                    | -  | -                     | 1,016       |
| Transfers                                       | (1,327)                 | 24        | 3,112                 | -        | 200                  | (2,009)  | -                     | -           |
| Closing balance as of 31 December 2007          | 229,254                 | 212,720   | 989,476               | 29,898   | 71,291               | 41,545   | 114,093               | 1,688,277   |
| <u>Accumulated depreciation</u>                 |                         |           |                       |          |                      |  |                       |             |
| Opening balance as of 1 January 2007            | (33,435)                | (123,514) | (850,749)             | (28,255) | (66,495)             | (1,498)  | (48,001)              | (1,151,947) |
| Currency transaction effect                     | 2,423                   | 5,269     | 73,386                | 4,067    | 10,467               | -  | 628                   | 96,240      |
| Charge for the year                             | (8,850)                 | (7,119)   | (33,309)              | (4,603)  | (5,314)              | (60)   | (3,218)               | (62,473)    |
| Disposals                                       | 581                     | 3,133     | 5,316                 | 5,361    | 1,657                | 8  | 306                   | 16,362      |
| Closing balance as of 31 December 2007          | (39,281)                | (122,231) | (805,356)             | (23,430) | (59,685)             | (1,550)  | (50,285)              | (1,101,818) |
| Carrying value as of 31 December 2007           | 189,973                 | 90,489    | 184,120               | 6,468    | 11,606               | 39,995   | 63,808                | 586,459     |
| Carrying value as of 31 December 2006           | 203,765                 | 104,913   | 126,012               | 12,234   | 12,770               | 21,645   | 67,054                | 548,393     |

Property, plant and equipment include fixed assets with carrying value of 104,025 purchased through financial lease. The amount of mortgage on buildings is 8,354.

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**19. PROPERTY PLANT AND EQUIPMENT (NET) (cont'd)**

| <u>Cost Value</u>                               | <u>Land &amp; land improvement</u> | <u>Buildings</u> | <u>Machinery &amp; equipment</u> | <u>Vehicles</u> | <u>Furniture &amp; fixtures</u> | <u>Construction in progress &amp; other tangible assets</u> | <u>Leasehold improvement</u> | <u>Total</u> |
|---|------------------------------------|------------------|----------------------------------|-----------------|---------------------------------|---|------------------------------|--------------|
| Opening balance as of 1 January 2006            | 186,032                            | 233,951          | 901,376                          | 39,566          | 81,857                          | 44,475  | 131,619                      | 1,618,876    |
| Currency transaction effect                     | 7,409                              | 10,961           | 24,839                           | 1,480           | 3,306                           | 24  | 176                          | 48,195       |
| Reclassification to assets held for sale        | -                                  | (20,380)         | -                                | (2,890)         | (11,449)                        | (7,735)   | (16,860)                     | (59,314)     |
| Effect of liquidation                           | -                                  | 2,113            | 370                              | -               | 11                              | -   | -                            | 2,494        |
| Additions                                       | 46,620                             | 5,501            | 13,890                           | 3,548           | 9,357                           | 14,124  | 128                          | 93,168       |
| Tangible assets acquired through finance leases | -                                  | -                | 29,321                           | -               | -                               | -   | -                            | 29,321       |
| Disposals                                       | (2,861)                            | (2,791)          | (19,074)                         | (1,356)         | (3,966)                         | (859)   | (8)                          | (30,915)     |
| Transfers from investment property              | -                                  | (1,485)          | -                                | -               | -                               | -   | -                            | (1,485)      |
| Transfers                                       | -                                  | 557              | 26,039                           | 141             | 149                             | (26,886)  | -                            | -            |
| Closing balance as of 31 December 2006          | 237,200                            | 228,427          | 976,761                          | 40,489          | 79,265                          | 23,143  | 115,055                      | 1,700,340    |
| <u>Accumulated Depreciation</u>                 |                                    |                  |                                  |                 |                                 |   |                              |              |
| Opening balance as of 1 January 2006            | (26,589)                           | (114,801)        | (824,512)                        | (26,368)        | (73,062)                        | (8,536)   | (60,322)                     | (1,134,190)  |
| Currency transaction effect                     | (349)                              | (6,669)          | (20,345)                         | (913)           | (2,909)                         | -   | (157)                        | (31,342)     |
| Reclassification to assets held for sale        | -                                  | 1,214            | -                                | 2,327           | 9,450                           | 7,184   | 15,243                       | 35,418       |
| Effect of liquidation                           | -                                  | (104)            | (18)                             | -               | (1)                             | -   | -                            | (123)        |
| Charge for the year                             | (6,667)                            | (5,514)          | (23,482)                         | (4,572)         | (3,548)                         | (146)   | (2,773)                      | (46,702)     |
| Disposals                                       | 170                                | 2,360            | 17,608                           | 1,271           | 3,575                           | -   | 8                            | 24,992       |
| Closing balance as of 31 December 2006          | (33,435)                           | (123,514)        | (850,749)                        | (28,255)        | (66,495)                        | (1,498)   | (48,001)                     | (1,151,947)  |
| Carrying value as of 31 December 2006           | 203,765                            | 104,913          | 126,012                          | 12,234          | 12,770                          | 21,645  | 67,054                       | 548,393      |
| Carrying value as of 31 December 2005           | 159,443                            | 119,150          | 76,864                           | 13,198          | 8,795                           | 35,939  | 71,297                       | 484,686      |

Property, plant and equipment include fixed assets with carrying value of 38,316 purchased through financial lease.

The amount of mortgage on buildings is 8,779.

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**20. INTANGIBLE ASSETS (NET)**

|   | <u>Rights</u>  | <u>Other intangible<br/>assets</u> | <u>Total</u>   |
|---|----------------|------------------------------------|----------------|
| <b>Cost Value</b>                           |                |                                    |                |
| Opening balance as of 1 January 2006        | 15,188         | 2,416                              | 17,604         |
| Reclassification to assets<br>held for sale | (11,771)       | -                                  | (11,771)       |
| Currency translation effect                 | 66             | 124                                | 190            |
| Additions                                   | 4,115          | 13                                 | 4,128          |
| Disposals                                   | (117)          | -                                  | (117)          |
| Closing balance as of 31 December 2006      | <u>7,481</u>   | <u>2,553</u>                       | <u>10,034</u>  |
| Currency translation effect                 | (650)          | (75)                               | (725)          |
| Additions                                   | 2,070          | 13                                 | 2,083          |
| Disposals                                   | -              | (665)                              | (665)          |
| Closing balance as of 31 December 2007      | <u>8,901</u>   | <u>1,826</u>                       | <u>10,727</u>  |
| <b>Accumulated Amortization</b>             |                |                                    |                |
| Opening balance as of 1 January 2006        | (11,810)       | (1,363)                            | (13,173)       |
| Reclassification to assets<br>held for sale | 10,281         | -                                  | 10,281         |
| Currency translation effect                 | (13)           | (109)                              | (122)          |
| Charge for the year                         | (2,202)        | (732)                              | (2,934)        |
| Disposals                                   | 117            | -                                  | 117            |
| Closing balance as of 31 December 2006      | <u>(3,627)</u> | <u>(2,204)</u>                     | <u>(5,831)</u> |
| Currency translation effect                 | 280            | 59                                 | 339            |
| Charge for the year                         | (1,415)        | (192)                              | (1,607)        |
| Disposals                                   | -              | 665                                | 665            |
| Closing balance as of 31 December 2007      | <u>(4,762)</u> | <u>(1,672)</u>                     | <u>(6,434)</u> |
| <b>Carrying Values</b>                      |                |                                    |                |
| Carrying value at 31 December 2007          | <u>4,139</u>   | <u>154</u>                         | <u>4,293</u>   |
| Carrying value at 31 December 2006          | <u>3,854</u>   | <u>349</u>                         | <u>4,203</u>   |

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### 21. ADVANCES RECEIVED

The Group's advances received amounts comprise of advances received related to contracts undertaken in Turkey and abroad.

|   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| <u>Short term advances received</u>           |                     |                     |
| Advances received from construction contracts | 172,398             | 104,196             |
| Other advances received                       | 24,168              | 8,049               |
|   | <u>196,566</u>      | <u>112,245</u>      |
| <u>Long term advances received</u>            |                     |                     |
| Advances received from construction contracts | 38,349              | 21,629              |
|   | <u>38,349</u>       | <u>21,629</u>       |

### 22. PENSION PLANS

The Group has no liabilities regarding pension plans.

### 23. PROVISIONS

#### a) Short term provision:

|                                    | 31 December<br>2007 | 31 December<br>2006 |
|------------------------------------|---------------------|---------------------|
| Provision for litigation (Note:31) | 14,358              | 11,172              |
| Corporate tax payable (Note: 41)   | 22,782              | 290                 |
| Retirement pay provision           | 1,054               | 868                 |
| Premium provision                  | 7,610               | 1,801               |
| Other provisions                   | 66                  | 98                  |
|                                    | <u>45,870</u>       | <u>14,229</u>       |

Movement of provision for litigation is as follows:

|                                      | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Balance at the beginning of the year | 11,172                            | 8,001                             |
| Provision paid (-)                   | (703)                             | (231)                             |
| Charge for the year                  | 4,866                             | 3,056                             |
| Provision released                   | (635)                             | -                                 |
| Currency translation effect          | (342)                             | 346                               |
| Balance at the end of the year       | <u>14,358</u>                     | <u>11,172</u>                     |

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#### 23. PROVISIONS (cont'd)

Movement of premium provision is as follow:

|                             | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
|-----------------------------|-----------------------------------|-----------------------------------|
| Opening balance             | 1,801                             | -                                 |
| Provisions paid             | (1,801)                           | -                                 |
| Charge for the period       | 8,179                             | 1,831                             |
| Currency translation effect | (569)                             | (30)                              |
| Closing balance             | <u>7,610</u>                      | <u>1,801</u>                      |

b)Details of long term provision are as follow:

|                                  | 31 December<br>2007 | 31 December<br>2006 |
|----------------------------------|---------------------|---------------------|
| Provision for retirement payment | 27,748              | 24,669              |

#### *Retirement Pay Provision*

Under the Turkish Labour Law, the Group is required to pay employment termination benefits to each employee who has qualified for such benefits. In addition, employees are required to receive their retirement pay provisions that are entitled to receive retirement pay provisions in accordance with Law numbered 2422, dated 6 March 1981, numbered 4447, including the amended Article 60 of the related Law.

The amount payable to the employee consists of one month worth salary limited to a maximum of 2,087.92 (31 December 2006: 1,960.69) for each period of service at 31 December 2007.

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

The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees (not applicable for employees who are working in construction projects). IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. Accordingly, the following actuarial assumptions are used in the calculation of the total liability.

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### 23. PROVISIONS (cont'd)

#### *Retirement Pay Provision:*

The principal assumption is that maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying consolidated financial statements as of 31 December 2007, provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. Provisions at the respective balance sheet were calculated assuming an annual inflation rate of 5% and a discount rate of 11%, the real discount rate is approximately 5.71% (31 December 2006: real discount rate of 5.71%). The anticipated rate of forfeitures is also considered.

Movement of retirement pay provision is as follows:

|  | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
|--|-----------------------------------|-----------------------------------|
| Opening balance  | 25,537                            | 25,944                            |
| Reclassification to liabilities classified as<br>held for sale | -                                 | (2,162)                           |
| Currency translation effect                                    | (1,685)                           | 478                               |
| Service expense  | 8,530                             | 9,499                             |
| Interest expense   | 1,176                             | 1,309                             |
| Termination benefits paid (-)                                  | (4,756)                           | (9,531)                           |
| Closing balance  | <u>28,802</u>                     | <u>25,537</u>                     |
|  | 31 December<br>2007               | 31 December<br>2006               |
| Short-term retirement pay provision                            | 1,054                             | 868                               |
| Long-term retirement pay provision                             | <u>27,748</u>                     | <u>24,669</u>                     |
|  | <u>28,802</u>                     | <u>25,537</u>                     |

### 24. MINORITY INTEREST

As of 31 December 2007 and 2006, the movement of minority interest is as follows:

|  | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
|--|-----------------------------------|-----------------------------------|
| Opening balance                                    | 19,227                            | 18,412                            |
| Currency translation effect                        | (2,129)                           | 1,317                             |
| Minority shares of<br>the discontinued operations  | -                                 | 226                               |
| Effect of sale of a subsidiary (Note:35)           | (1,967)                           | -                                 |
| Payment of dividend (-)                            | -                                 | (215)                             |
| Minority share on operating results<br>of the year | 633                               | (513)                             |
| Closing balance                                    | <u>15,764</u>                     | <u>19,227</u>                     |

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### 25. SHARE CAPITAL

The structure of the share capital as of 31 December 2007 and 2006 is as follows:

| Shareholders  | 31 December |         | 31 December |         |
|---|-------------|---------|-------------|---------|
|   | (%)         | 2007    | (%)         | 2006    |
| Necati Akçağlılar   | 16.88%      | 50,066  | 25.76%      | 26,786  |
| Feyyaz Berker   | 16.88%      | 50,066  | 25.76%      | 26,786  |
| Ali Nihat Gökyiğit  | 8.73%       | 25,883  | 15.82%      | 16,450  |
| Ali Nihat Gökyiğit Yat. Hold. A.Ş.  | 8.67%       | 25,758  | 11.20%      | 11,647  |
| Cansevil Akçağlılar   | 2.43%       | 7,223   | 3.72%       | 3,865   |
| Alev Berker   | 2.43%       | 7,223   | 3.71%       | 3,865   |
| Erhan Öner  | 2.17%       | 6,424   | 3.48%       | 3,622   |
| Ali Nihat Gökyiğit Eğitim Sağlık Kültür<br>Sanat ve Doğal Varlıkları Koruma Vakfı | 1.90%       | 5,649   | 2.45%       | 2,554   |
| Abdurrahman Günay Ünlüsoy   | 1.30%       | 3,849   | 1.98%       | 2,059   |
| Naim Özkazanç   | 1.13%       | 3,380   | 1.74%       | 1,808   |
| Mehmet Necdet Bozdoğan  | 1.11%       | 3,316   | 1.71%       | 1,774   |
| Öner Yatırım İç ve Dış Tic. A.Ş.  | 0.76%       | 2,234   | 0.97%       | 1,010   |
| Erktin family   | 1.11%       | 3,317   | 1.70%       | 1,774   |
| Publicly traded   | 34.50%      | 102,387 | 0.00%       | -       |
|   | 100%        | 296,775 | 100%        | 104,000 |

In accordance with the Board of Director's, decision No: 454 dated on 29 May 2007, the Company has increased its capital by 126,000 from 104,000 to 230,000. The portion amounting to 31,413 of the increase was made through transfer from inflation adjustment funds, the portion amounting to 2,576 of the increase was transferred from other funds and the portion amount as 92,011 was from the profits of property and subsidiary sales.

The Company restricted existing shareholders rights to buy new shares and made a capital increase by 66,775, this increased capital is offered to public. The Companies legal capital was announced at 219 numbered Trade Registry Gazette in 26 November 2007.

Registered and issued capital comprises 296,775,000 shares at 1 TRY par value. All these shares consist of bearer common shares.

Group, reserves 5% of the historical statutory profit as first legal reserve, until the total reserve reaches 20 % of the historical paid in share capital. From the remaining statutory profit, 30% of the paid capital is distributed as first dividend to the holders on the condition that rates and amounts are not less than rates and amounts applied by CMB. Also at least 3% of remaining profit is distributed to Tekfen Eğitim Sağlık Kültür Sanat ve Doğal Varlıkları Koruma Vakfı which has redeemed share.

### 26. CAPITAL RESERVES

|  | 31 December | 31 December |
|--|-------------|-------------|
|  | 2007        | 2006        |
| Premium in excess of par                   | 301,839     | -           |
| Fair value reserve of financial assets (*) | 41,975      | 39,500      |
| Revaluation fund (**)                      | 585         | 3,128       |
| Inflation adjustment on equity             |             |             |
| - Inflation adjustment on share capital    | 3,475       | 3,475       |
| - Inflation adjustment on reserves         | 59,385      | 90,798      |
|  | 407,259     | 136,901     |

(\*) Fair value reserve of financial assets consists of changes in fair value of securities held for sale.

(\*\*) Revaluation fund comprise revaluation of fixed assets funds of Tekfenbank.

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#### 27. PROFIT RESERVES

|                        | 31 December<br>2007 | 31 December<br>2006 |
|------------------------|---------------------|---------------------|
| Legal reserves         | 3,560               | 10,615              |
| Extraordinary reserves | 75,604              | 67,926              |
|                        | <u>79,164</u>       | <u>78,541</u>       |

According to the Turkish Commercial Code, legal reserves consist of first and second legal reserves. The first legal reserves, appropriated out of historical statutory profit at the rate of 5 % per annum, until the total reserve reaches 20 % of the historical paid in share capital. The second legal reserve is appropriated after the first legal reserves and dividends, at the rate of 10 % per annum of all cash dividend distributions. Legal reserves can be offset against retained earnings, however; they can not be subject to profit distribution.

#### 28. RETAINED EARNINGS/(ACCUMULATED LOSSES)

As of 31 December 2007, retained earnings of the Group amount to 182,295 (As of 31 December 2006: 221,043).

#### 29. FOREIGN CURRENCY POSITION

As of 31 December 2007 and 2006, foreign currency position position of the Group stated in TRY is as follows:

|  | 31 December 2007 |               |                |                 |
|--|------------------|---------------|----------------|-----------------|
|  | USD              | EUR           | Other          | Total           |
| Cash and cash equivalents                    | 108,623          | 15,592        | 4,297          | 128,512         |
| Trade receivables                            | 103,879          | 24,726        | 133,724        | 262,329         |
| Due from related parties                     | 12,268           | 153           | 1,392          | 13,813          |
| Receivables from ongoing construction assets | 135,444          | 8,595         | 110,785        | 254,824         |
| Sub-total                                    | <u>360,214</u>   | <u>49,066</u> | <u>250,198</u> | <u>659,478</u>  |
| Bank loans                                   | 278,404          | 18,151        | 25,499         | 322,054         |
| Finance lease payables                       | 74,757           | 4,317         | 12,303         | 91,377          |
| Trade payables                               | 191,220          | 13,220        | 94,637         | 299,077         |
| Due to related parties                       | 1,322            | -             | 92             | 1,414           |
| Sub-total                                    | <u>545,703</u>   | <u>35,688</u> | <u>132,531</u> | <u>713,922</u>  |
| Net foreign currency position                | <u>(185,489)</u> | <u>13,378</u> | <u>117,667</u> | <u>(54,444)</u> |

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**29. FOREIGN CURRENCY POSITION (cont'd)**

|   | 31 December 2006 |         |         |           |
|---|------------------|---------|---------|-----------|
|   | USD              | EUR     | Other   | Total     |
| Cash and cash equivalents                         | 109,273          | 44,716  | 39,356  | 193,345   |
| Trade receivables                                 | 148,082          | 22,412  | 94,156  | 264,650   |
| Due from related parties                          | 14,828           | -       | 201     | 15,029    |
| Receivables from ongoing construction assets      | 108,057          | 6,247   | 59,113  | 173,417   |
| Assets classified as held for sale                | 227,385          | 175,522 | 1,509   | 404,416   |
| Sub-total   | 607,625          | 248,897 | 194,335 | 1,050,857 |
| Bank loans  | 508,580          | 41,443  | 40,456  | 590,479   |
| Finance lease payables                            | 25,947           | -       | 4,533   | 30,480    |
| Trade payables                                    | 206,625          | 32,629  | 113,694 | 352,948   |
| Due to related parties                            | 10,184           | -       | 690     | 10,874    |
| Liabilities classified as discontinued operations | 276,069          | 174,268 | 1,563   | 451,900   |
| Sub-total   | 1,027,405        | 248,340 | 160,936 | 1,436,681 |
| Net foreign currency position                     | (419,780)        | 557     | 33,399  | (385,824) |

Details of foreign currency position from discontinued operations are as follow:

|   | 31 December 2006 |         |       |         |
|---|------------------|---------|-------|---------|
|   | USD              | EUR     | Other | Total   |
| Cash and cash equivalents               | 74,307           | 69,460  | 1,329 | 145,096 |
| Marketable securities (net)             | 11,096           | -       | -     | 11,096  |
| Turkish Central Bank account            | -                | 28,368  | -     | 28,368  |
| Loans and loaned securities             | 138,380          | 72,133  | 180   | 210,693 |
| Finance lease receivables (net)         | 3,602            | 5,561   | -     | 9,163   |
| Assets classified as held for sale      | 227,385          | 175,522 | 1,509 | 404,416 |
| Bank loans (net)                        | 55,917           | 51,293  | 33    | 107,243 |
| Deposits                                | 220,152          | 122,975 | 1,530 | 344,657 |
| Liabilities classified as held for sale | 276,069          | 174,268 | 1,563 | 451,900 |

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#### 30. GOVERNMENT GRANTS AND INCENTIVES

Tekfen Construction has a tax incentive on the Baku Tbilisi Ceyhan project in accordance with the 9th article of the appendix 2 "Hosting Country Agreement between the Turkish Government and MEP participants" which is an integral part of the "Agreement between Turkish Government, Azerbaijan Government and Georgia government regarding the transportation of petroleum over Azerbaijan Georgia and Turkey with Baku Tbilisi Ceyhan main export pipeline" (Agreement between the governments) which took effect with the council of ministers numbered 2000/1127 and approved with the law 4585 and announced in the official gazette dated 10 September 2000 numbered 24166.

The contracting segment has a tax incentive on project of NTY, the joint venture of Tekfen İnşaat and Yüksel İnşaat A.Ş., "Karadeniz Perşembe Bolaman shore highway" in accordance with the "Creation of Employment and Incentives for Investments in the State of Emergency And Priority Areas For Development" dated 21 January 1998 and numbered 4325 and "Law about the Change in The Income Tax Law" numbered 193.

The contracting segment has a tax incentive regarding the section 2 article 2.9 (Taxes And Contract Registration Section) caption 3 of the agreement between Titaş and Tekfen TML J.V. for the construction of Kufra- Tazerbo water channel project in Libya dated 6 June 2006.

The contracting segment has a tax incentive on Snagachal ACG Terminal and PCWU Topside platform construction in Azerbaijan in accordance with the agreement, which was promulgated as a law on 18 December 1998 between Titaş and Azerbaijan Republic Petroleum Company and signed on 20 July 1998.

Tanger-Lechbaa highway carried by Tekfen Construction Morocco Branch has 50% tax incentive in accordance with the Morocco investment incentive law. Furthermore, the Tekfen İnşaat Morocco branch has a VAT incentive due to the same law.

The Undersecretaries of Treasury and Foreign Trade of Turkey has given taxes and dues incentive for the contracts undertaken by Tekfen Construction and its joint ventures. These contracts are as follows:

- Morocco- Tanger - Lechbaa Highway Contract – extended till September 2008
- Ankara - Pozantı Highway (Çiftelhan - Pozantı Section) Project - extended till August 2008
- Perşembe - Bolaman Highway contract – Extended till December 2008
- Afşin - Elbistan Thermal Power Plant Contract - Extended till June 2008
- Azerbaijan Shah Deniz Gas Export Contract On shore works, pipeline and tank construction contract - extended till October 2008.
- Azerbaijan PCWU Platform construction – Extended till March 2010
- Bursa Light Rail System – Extended till June 2008

Tekfen Emlak has taken a tourism investment certificate on 28 June 2007 from ministry of culture and tourism and applied to Republic of Turkey Prime Ministry Undersecretaries of Treasury in order to benefit from the law numbered 2634 about "incentive for tourism investments" article 16 (The companies that take tourism incentive certificate pay the company's electricity, gas and water fees in the lowest fees of the region.) for the construction of a Boutique hotel within Tekfen Yalıkavak Tekfen Residents contract at 21 August 2007. At 29 August 2007 this application is approved.

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#### 30. GOVERNMENT GRANTS AND INCENTIVES (cont'd)

Toros Tarım and Toros Enerji within Toros Group have an investment incentive certificate. Toros Tarım has taken two investment incentive certificates for the extension of the steel grain elevators in Adana-Seyhan and İzmir-Torbalı. The investment incentive certificate dated 23 June 2005 covers the investment amounting to 1,390 to be financed by the entities internal sources for the extension from 50,000 ton/year to 70,000 ton/year of the grain elevator in İzmir-Torbalı. The investment incentive certificate dated 9 June 2005 covers the investment amounting to 1,526 to be financed by the entities internal sources for the extension from 20,000 ton/year to 40,000 ton/year of the grain elevator in Adana Seyhan. The group has 100% custom tax and VAT incentive for both of these investments. Toros Group has 2,134 unutilized investment incentives, which expires in 2008.

Toros Enerji has taken investment incentive certificates for its electricity and steam production investments in Adana-Ceyhan. Investment incentive certificate dated 22 September 1997 covers the investment for the electricity and steam production with capacities 36,700 mwh/year and 82,000 ton/ year respectively.

Investments in Mersin amount to 796, which will be financed by internal sources amounting to 239 and 557 from external borrowings. The other investment incentive certificate covers the investment for the electricity and steam production with capacities 36,200 mwh/year and 82,000 ton/year respectively.

Investments in Ceyhan amount to 680, which will be financed by capital amounting to 204 and the remainder from external borrowings. The investment incentives of Toros Enerji comprise 100% customs, 100% taxable investment incentive deduction, and 100% VAT deduction. The company has tax deductible investment incentives amounting to 11,753 out of which 2,642 were used.

#### 31. COMMITMENTS AND CONTINGENCIES

|  | 31 December<br>2007 | 31 December<br>2006 |
|--|---------------------|---------------------|
| Letters of guarantee given   | 665,625             | 548,142             |
| Letters of credit  | 128,067             | 203,337             |
| Mortgages  | 8,354               | 8,779               |
| Provisions, contingent assets and liabilities from discontinued operations | -                   | 539,871             |
|  | <u>802,046</u>      | <u>1,300,129</u>    |

##### Contractual Obligations:

##### *Defects Liability*

Based on the agreements signed with customers, the Group ensures to maintain its contract operations until the end of guarantee period and undertake the construction, maintenance, and general maintenance of related assets for two years. In case the customer determines any defects subsequent to the provisional acceptance of the contract, the Group is obliged to remedy the defect.

##### *Penalty of Default*

Based on the agreements signed with the customers, if the Group fails to complete in full or partially its contract operations within the determined period, it shall pay penalty amount for such defaults to its customers.

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#### 31. COMMITMENTS AND CONTINGENCIES (cont'd)

##### Contractual Obligations (cont'd):

##### *Tax inspections*

In the Saudi Arabia Branch, the Department of Zakat and Income Tax ("DZIT") has issued its final tax assessment for the years 2003, 2004, and 2005. Based on this assessment, there is an additional tax liability from the Saudi Arabia Branch amounting to 5,324 thousand USD (Saudi Arabia Riyal 19,963,924). Saudi Branch has submitted an objection on this assessment with the Appeal Committee. Management believes that the DZIT's claim is without merit and the Appeal Committee decision will ultimately be to their favour. As the claim revenue has not been yet collected by the branch, consolidated financial statements of the Group did not include this claim and accordingly, no provision for tax charge was provided in the accompanying financial statements.

##### Litigations:

Based on the decision taken by the Board of Competition of Republic of Turkey, a case was filed against Toros Gübre on 4 June 2000. This court case was finalized on 13 February 2002 and a penalty was charged amounting to approximately 2,563 against the company. The penalty is denominated in Turkish Lira and does not bear any interests. Toros Gübre objected to the decision of the Board of Competition and has filed a case for the suspension of execution on 27 April 2004 in 10th department of the Council of State. The council decided to reconsider this application, legal situation, and disagreement under the legal framework after receiving the defendant Board's response to the allegation including the related information and documents attached therein as of 2 June 2004. The defendant's (Board of Competition) response to the allegation was submitted and the judicial document was sent to the Council of State prosecutor for the suspension of execution. Toros Gübre is still applying for an appeal against the Board of Competition. Based on the examination performed collected and accrued penalties have been withdrew. Although the refundment process has started, tax administration will make the refund after the act of refundment received. Since the case has not arrived to final decision, 2,451 provisions are provided in the accompanying consolidated financial statements.

Republic of Turkey Prime Ministry Undersecretaries of Treasury filed a lawsuit against Toros Tarım for violation of coastline. The related case which was subject to violation was related to the Group's land plot no: 3713 in Tekkeköy, Samsun and the reason for legal grounds of this case was based on the violation of 75,000 square meters of coastline by the Group's land having a total of 452,814 square meters. Court granted an injunction in order to prevent sale of the land and final decision of administrative court has not arrived. The occasion is taken into consideration in the calculation of goodwill during the recognition of Samsun Gübre acquisition and no provision booked.

Moreover, Botaş A.Ş. file a claim to Toros Tarım related with the expropriation of the lands which are located in Mersin. However, the Group management does not consider any risk for this and other claims therefore, no provision has been recorded for the related legal claims as 31 December 2007 in accompanying consolidated financial statements.

On 21 July 2006, Samsun Municipality (the "Municipality") sent a notice to the Company stating that the Facility's business has to be halted since necessary operating licenses had not been acquired as of that date. The Company has objected to this declaration promptly stating the reasons. Upon these objections, the Municipality sent a notice on September 12, 2006 to the Company, noting that the Company shall have a six-month period to complete the license procedures and act towards averting environmental pollution in the meantime. Close to the due date, the Company has requested another six-month extension to resolve this issue. In this request, the Company also noted that since the facility is located on a land that is considered (2)(b) land (i.e., land subject the article to (2)(b) of the Forestry Law), it has no authorization for improving or developing the Facility area. The Company's request for the second six-month extension had been accepted on 20 March 2007 by the Municipality.

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#### 31. COMMITMENTS AND CONTINGENCIES (cont'd)

##### Litigations (cont'd):

However, during the inspection of the Ministry of Interior on Samsun Municipality on 23 October 2007, the Ministry of Interior Inspectors had noted that the delaying procedure of the closing down decision was not within the authority of the Municipality. Therefore, the Municipality has decided to close down the operations and sent a notice to the Company for this effect on 6 November 2007. The Company filed a claim against the Municipality's decision of closing down on 27 November 2007. The Samsun 2nd Administrative Court has declared a stay of execution of the Municipal Decision on 6 December 2007 stating that decision of closing down had been temporarily delayed until the Municipality files its response. However, at 12 March 2008 the Court has refused the demand for stay of execution of the Group. The Company Management considers the closing down decision of Samsun Facilities is highly remote. Therefore, the indistinctness of the judicial process is still existing as of date of report. Therefore the Group has not reserved for the aforementioned cases in the accompanied financial statements.

As of balance sheet date a lawsuit adducing that Toros Terminal has mixed its petroleum with fuel oil was opened against Toros Terminal. The case amounts USD 1,728,636 as of balance sheet date, and because The Company Management considers the case is highly remote therefore accompanying consolidated financial statements do not include any provision related to this issue.

2,592 of provision amount was set for the restitution of employment case filed by former employees of Samsun Gübre before its privatization against the Toros Group and 1,521 of provision was made for the case filed against Toros Enerji in accordance with amended Article 4 (c) of the Turkey Radio and Television Corporation Revenues Law No: 4397 on 6 July 1999.

Other than those significant lawsuits mentioned above, 7,794 of provision have been made for other legal cases.

Information gathered from the Group lawyers related to the amounts and current proceedings of cases above have been examined, and provisions 14,358 (2006: 11,172) have been recorded as of the balance sheet date (Not: 23). These provisions are the most likely outcome and calculated by using the probability ratio on the potential outflow amount of resources. No provision is provided for remaining 22,183 (31 December 2006: 9,051) by management as it is not likely to require an outflow of resources from The Group after providing provision for the high probable cases according to judgements of the lawyers.

##### Mortgages:

In addition, as of 31 December 2007, the Group has USD 24,191 thousand (28,175 TRY thousand) letters of guarantee and EUR 3,011 thousand USD 3,205 thousand mortgage in consideration of its bank loans (31 December 2006: USD 40,503 thousand (52,840 TRY thousand) of letters of guarantee; EUR 3,011 thousand, (5,575 TRY thousand) and 8,779 mortgage).

##### Commitments based on buyback agreement:

The Bank shall undertake to transfer, at the option of Holding, the property subject to a lease agreement dated 22 December 2003 between the Bank (as Lessee) and BNP-Ak-Dresdner Finansal Kiralama A.Ş. (as Lessor) (the "Lease Agreement") for the Tekfen Tower floor number: Tower 21 Independent Part:28, Tower 22 Independent Part:29, Tower 23 Independent Part:30 and Tower 24 Independent Part:31. According to this agreement, 21, 22., 23. and 24. Floors in the Tekfen Tower, which are owned by the Lessor, are leased to the Bank for a period of four years to be renewed with the written approval of the Lessee and with the option to purchase at the end of the lease period by paying USD 1000 to buy estates. In addition, they make purchase agreement about immovable property for the benefit of company at 16 March 2007. Upon the agreement, Tekfenbank can use purchase right in earliest in one month and in latest on 31 July 2010 following the date of purchase of the Tekfen Tower Estate. The Company shall undertake, upon the request of the Bank, to execute a lease agreement with the Bank regarding the Tekfen Tower Estate to be effective immediately upon its transfer to the Company. Purchase value is USD 11.9 million and will be paid in cash or in full to the bank account of Eurobank EFG Holding (Luxembourg) S.A. ("EFG Eurobank") or other bank account that declared before at the latest date of purchase right that used. After Purchase right is used in proper conditions, purchase value is paid, Tekfenbank transfer the title deed of property to the company, and the company will take over. When Tekfenbank did not want to conclude the rent contracts, after ownership of property are transferred to Holding, the bank will implement process for discharging the property and placed property in twelve months following transfer of the property.

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#### 31 COMMITMENTS AND CONTINGENCIES (cont'd)

##### Rights and Commitments Based on Share Purchase Agreement:

Call option to EFG Eurobank; put option to Tekfen Holding and TST Finance given pursuant to share purchase agreement, which was signed in 16 March 2007 between the Company, TST Finance (both of the companies are "Tekfen Shareholders) and EFG Eurobank.

At any time between the seventh (7th) anniversary and the tenth (10th) anniversary of the signing of this Agreement, EFG Shareholders will have the right to exercise, by delivery of a written notice ("Call Notice"), a call option to purchase at the Exercise Price, in one transaction, all of the shares then by all Tekfen Shareholders ("Call Shares"). The Exercise Price applicable to the sale of Call Shares shall be paid in USD and will be higher of the followings:

1) USD 72,5 million plus positive or negative difference of net asset value multiply 28.2% plus 5% yearly accepted pay back amount for the period between such value's closing and option's using date,

2) Lower of the followings:

(a) Expenses occurred during additional Bank Shares purchases by Tekfen Shareholders from third parties or;

(b) Cost per share plus positive or negative difference of net asset value for all types of corporate transactions per share (stock splits, reverse stock splits, capital increase etc.), plus %5 accepted pay back amount for the period between such amount's purchase date and option's using date.

At any time between the fifth anniversary and the tenth anniversary of the signing of this Agreement, Tekfen Shareholders shall be entitled to sell at the Exercise Price, in one transaction, all of the Shares then held by all Tekfen Shareholders ("the Put Shares"), to the EFG Shareholders, by delivery of a written notice stating their intent to exercise such entitlement (a "Put Option"), such sale to be in accordance with this Section. The exercise Price applicable to the sale of the Put Shares shall be determined pursuant to the awards above and shall be paid in cash in USD.

Furthermore, based on Share Purchase Agreement in Share Transfer Article it is stated that the shareholders shall not sell their shares to third parties by way of public offering or special purpose sale for the five years from the agreement date however, it is excluded that one of the shareholder or both can sell or transfer whole amount or a portion of their shares to a subsidiary of the Group.

##### Others:

The financial, economic, and social policies of the different countries in which the Group has operations may affect the Groups operations in these countries. As of 31 December 2007 and 31 December 2006, management of the Group believes that there are no significant financial or political matters that will affect the accompanying consolidated financial statements.

#### 32. BUSINESS COMBINATIONS

None.

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**33. SEGMENTAL REPORTING**

a) Segmental results:

|   | 1 January-31 December 2007 |                |               |                |                  | Total            |
|---|----------------------------|----------------|---------------|----------------|------------------|------------------|
|   | Contracting                | Agriculture    | Estate        | Other          | Eliminations     |                  |
| Revenue   | 1,029,438                  | 774,879        | 47,006        | 44,009         | -                | 1,895,332        |
| Intra-segment sales   | 119,080                    | 136,663        | 9             | 7,574          | (263,326)        | -                |
| Inter-segment sales   | 744                        | 2,371          | 2,337         | 5,951          | (11,403)         | -                |
| Revenue   | <u>1,149,262</u>           | <u>913,913</u> | <u>49,352</u> | <u>57,534</u>  | <u>(274,729)</u> | <u>1,895,332</u> |
| Cost of Sales   | (955,019)                  | (598,189)      | (32,473)      | (40,257)       | -                | (1,625,938)      |
| Income from other operations                                  | -                          | 175            | -             | 12,475         | -                | 12,650           |
| Gross Profit  | <u>74,419</u>              | <u>176,865</u> | <u>14,533</u> | <u>16,227</u>  | -                | <u>282,044</u>   |
| Operating expenses  | (44,199)                   | (81,768)       | (818)         | (25,164)       | -                | (151,949)        |
| Operating Profit / (Loss)                                     | <u>30,220</u>              | <u>95,097</u>  | <u>13,715</u> | <u>(8,937)</u> | -                | <u>130,095</u>   |
| Other income/profit   | 10,737                     | 4,985          | 345           | 10,290         | -                | 26,357           |
| Other expenses/losses   | (9,903)                    | (4,154)        | -             | (952)          | -                | (15,009)         |
| Finance income/(expense) (net)                                | (11,024)                   | 15,510         | 5,699         | (734)          | -                | 9,451            |
| Operating Profit / (Loss)                                     | <u>20,030</u>              | <u>111,438</u> | <u>19,759</u> | <u>(333)</u>   | -                | <u>150,894</u>   |
| Minority Interest   | (540)                      | (67)           | 5             | (31)           | -                | (633)            |
| Profit / (Loss) Before Taxation                               | <u>19,490</u>              | <u>111,371</u> | <u>19,764</u> | <u>(364)</u>   | -                | <u>150,261</u>   |
| Taxation  | 2,974                      | (20,641)       | (4,029)       | (4,197)        | -                | (25,893)         |
| Net Profit / (Loss) for the Period from Continuing Operations | <u>22,464</u>              | <u>90,730</u>  | <u>15,735</u> | <u>(4,561)</u> | -                | <u>124,368</u>   |

The Group has 38,510 of revenue and 13,387 of operating income from terminal operations classified as agricultural operation in 2007.

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**33. SEGMENTAL REPORTING (cont'd)**

a) Segmental results (cont'd):

|   | 1 January-31 December 2006 |             |          |          |              | Total       |
|---|----------------------------|-------------|----------|----------|--------------|-------------|
|   | Real                       |             |          |          |              |             |
|   | Contracting                | Agriculture | Estate   | Other    | Eliminations |             |
| Revenue   | 1,072,577                  | 597,183     | 7,296    | 48,723   | -            | 1,725,779   |
| Intra-segment sales   | 278,929                    | 309,166     | -        | 20,083   | (608,178)    | -           |
| Inter-segment sales   | 1,655                      | 2,054       | 216      | 7,112    | (11,037)     | -           |
| Revenue   | 1,353,161                  | 908,403     | 7,512    | 75,918   | (619,215)    | 1,725,779   |
| Cost of Sales   | (911,635)                  | (482,304)   | (18,626) | (42,314) | -            | (1,454,879) |
| Income from other operations                                  | -                          | 107         | -        | 16,608   | -            | 16,715      |
| Gross Profit / (Loss)   | 160,942                    | 114,986     | (11,330) | 23,017   | -            | 287,615     |
| Operating expenses  | (55,667)                   | (65,159)    | (824)    | (20,883) | -            | (142,533)   |
| Operating Profit / (Loss)                                     | 105,275                    | 49,827      | (12,154) | 2,134    | -            | 145,082     |
| Other income/profit   | 6,716                      | 4,572       | 10       | 10,126   | -            | 21,424      |
| Other expenses/losses   | (3,766)                    | (7,843)     | -        | (3,980)  | -            | (15,589)    |
| Finance income/(expense) (net)                                | (22,891)                   | (30,670)    | 1,239    | (8,366)  | -            | (60,688)    |
| Operating Profit / (Loss)                                     | 85,334                     | 15,886      | (10,905) | (86)     | -            | 90,229      |
| Minority Interest   | 555                        | (38)        | (1)      | (3)      | -            | 513         |
| Profit / (Loss) Before Taxation                               | 85,889                     | 15,848      | (10,906) | (89)     | -            | 90,742      |
| Taxation  | (19,940)                   | (971)       | (199)    | (1,063)  | -            | (22,173)    |
| Net Profit / (Loss) for the Period from Continuing Operations | 65,949                     | 14,877      | (11,105) | (1,152)  | -            | 68,569      |

The Group has 38,632 of revenue and 17,307 of operating income from terminal operations classified as agricultural operation in 2006.

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**33. SEGMENTAL REPORTING (cont'd)**

b) As of 31 December 2007 and 2006 segmental assets and liabilities are as follow:

|                      | 31 December 2007 |             |                             |             |         |              |           |
|----------------------|------------------|-------------|-----------------------------|-------------|---------|--------------|-----------|
|                      | Contracting      | Agriculture | Discontinued Operations (*) | Real Estate | Other   | Eliminations | Total     |
| <u>Balance Sheet</u> |                  |             |                             |             |         |              |           |
| Assets               | 1,733,735        | 970,637     | -                           | 154,450     | 991,996 | (1,430,033)  | 2,420,785 |
| Liabilities          | 1,423,818        | 333,574     | -                           | 28,076      | 120,483 | (702,270)    | 1,203,681 |
| Equity               | 309,550          | 637,063     | -                           | 22,380      | 975,503 | (743,156)    | 1,201,340 |
| Minority interest    | 12,195           | 3,261       | -                           | 281         | 27      | -            | 15,764    |

|                      | 31 December 2006 |             |                             |             |         |              |           |
|----------------------|------------------|-------------|-----------------------------|-------------|---------|--------------|-----------|
|                      | Contracting      | Agriculture | Discontinued Operations (*) | Real Estate | Other   | Eliminations | Total     |
| <u>Balance Sheet</u> |                  |             |                             |             |         |              |           |
| Assets               | 1,553,779        | 1,112,840   | 1,118,942                   | 182,443     | 627,134 | (1,542,909)  | 3,052,229 |
| Liabilities          | 1,311,369        | 608,874     | 1,003,330                   | 30,976      | 224,663 | (760,501)    | 2,418,711 |
| Equity               | 242,411          | 503,966     | 115,611                     | 46,414      | 507,525 | (801,636)    | 614,291   |
| Minority interest    | -                | 3,251       | 1,987                       | 13,989      | -       | -            | 19,227    |

(\*) The Group discontinued its "Banking" operations by selling its subsidiary, Tekfenbank in 2007.

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### 33. SEGMENTAL REPORTING (cont'd)

c) Segmental information related to tangible and intangible assets for the years ended 31 December 2007 and 2006 are as follows:

|                                      | 1 January-31 December 2007 |             |             |       |         |
|--------------------------------------|----------------------------|-------------|-------------|-------|---------|
|                                      | Contracting                | Agriculture | Real Estate | Other | Total   |
| Capital additions                    | 138,215                    | 4,893       | 7,102       | 477   | 150,687 |
| Depreciation and amortisation charge | 43,381                     | 14,906      | 1,605       | 7,240 | 67,132  |

  

|                                      | 1 January-31 December 2006 |             |             |        |         |
|--------------------------------------|----------------------------|-------------|-------------|--------|---------|
|                                      | Contracting                | Agriculture | Real Estate | Other  | Total   |
| Capital additions                    | 110,342                    | 12,430      | 1,741       | 2,104  | 126,617 |
| Depreciation and amortisation charge | 23,377                     | 19,375      | 443         | 10,293 | 53,488  |

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**33.SEGMENTAL REPORTING (cont'd)**

d) Geographical segmental information is as follows:

|   | Turkey    | CIS     | North Africa | Middle Eastern Countries | Other   | Eliminations | Total     |
|---|-----------|---------|--------------|--------------------------|---------|--------------|-----------|
| Revenue (1 January-31 December 2007)  | 1,066,573 | 300,387 | 225,303      | 404,038                  | 199,981 | (300,950)    | 1,895,332 |
| Total Assets (31 December 2007)   | 2,457,688 | 464,620 | 181,651      | 297,789                  | 448,698 | (1,429,661)  | 2,420,785 |
| Capital additions to tangible and intangible assets (1 January-31 December 2007)(*) | 82,841    | 4,752   | 13,120       | 49,027                   | 947     | -            | 150,687   |
|   |           |         |              |                          |         |              |           |
|   | Turkey    | CIS     | North Africa | Middle Eastern Countries | Other   | Eliminations | Total     |
| Revenue (1 January-31 December 2006)  | 1,067,595 | 409,113 | 106,196      | 418,310                  | 362,468 | (637,903)    | 1,725,779 |
| Total Assets (31 December 2006)   | 3,147,820 | 471,923 | 132,723      | 195,220                  | 647,453 | (1,542,910)  | 3,052,229 |
| Capital additions to tangible and intangible assets (1 January-31 December 2006)(*) | 44,404    | 61,008  | 8,378        | 11,805                   | 1,022   | -            | 126,617   |

(\*) Fixed asset purchase through financial lease are also included.

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#### **34. SUBSEQUENT EVENTS**

- a) In accordance with the resolution of Board of Directors', dated on 20 February 2008 numbered 171, it is decided to call general assembly to a meeting for liquidation of Karaca Giyim at 27 March 2008.
- b) In accordance with the resolution of Board of Directors', dated on 4 February 2008 numbered 36/a, it is decided to increase in capital of Antalya Stüdyoları by 610 to 5,250.

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#### 35. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale consists of the Groups buildings, land and Tekfenbank's assets which are held with the aim of selling.

Assets classified as held for sale are as follow:

|  | 31 December<br>2007 | 31 December<br>2006 |
|--|---------------------|---------------------|
| Assets classified as held for sale                                 | 9,768               | 8,902               |
| Assets of discontinued operations                                  | -                   | 1,118,942           |
|  | <u>9,768</u>        | <u>1,127,844</u>    |
| Liabilities related to assets<br>classified as asset held for sale | -                   | 1,003,330           |

Liabilities classified as held for sale are the liabilities of Tekfenbank which classified as discontinued operations. Group sold the 70 % of its banking subsidiary Tekfenbank as of 16 March 2007 based on the decision made on 8 May 2006 and reclassified the banking operations as "discontinued operations". All the assets and liabilities of the discontinued operations are presented as a single line items as "Assets Classified as Discontinued Operations" and "Liabilities Classified as Discontinued Operations" in the consolidated balance sheet as of 31 December 2006.

|  | 31 December<br>2006 |
|--|---------------------|
| Cash and Cash equivalents                        | 261,325             |
| Marketable securities (net)                      | 45,935              |
| Turkish Central Bank Account                     | 48,035              |
| Loans and Loaned securities                      | 640,696             |
| Finance lease receivables (net)                  | 12,332              |
| Other Receivables (net)                          | 5,500               |
| Financial assets (net)                           | 78,388              |
| Tangible assets (net)                            | 23,896              |
| Intangible assets (net)                          | 1,490               |
| Deferred tax assets                              | 1,345               |
| Current assets of discontinued operations        | <u>1,118,942</u>    |
| Financial liabilities (net)                      | 152,422             |
| Deposit  | 823,456             |
| Other liabilities and payables                   | 27,452              |
| Current liabilities from discontinued operations | <u>1,003,330</u>    |

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**35. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (cont'd)**

Results of period until the date of Tekfenbank's sale, 16 March 2007 and gain on sale of Tekfenbank are presented as "Net Profit for the Period from Discontinued Operations" in statement of income.

Details of discontinued operations operating income are as follow:

|  | 1 January-<br>16 March<br>2007 | 1 January-<br>31 December<br>2006 |
|--|--------------------------------|-----------------------------------|
| <b>OPERATING INCOME</b>                            |                                |                                   |
| -Revenue (net)                                     | 37,610                         | 138,937                           |
| - Cost of revenue (-)                              | <u>(23,902)</u>                | <u>(75,890)</u>                   |
| <b>GROSS PROFIT / LOSS</b>                         | 13,708                         | 63,047                            |
| - Operating expenses (-)                           | <u>(12,919)</u>                | <u>(42,332)</u>                   |
| <b>NET OPERATING PROFIT / LOSS</b>                 | 789                            | 20,715                            |
| - Other income and profits                         | (890)                          | 2,921                             |
| - Other expense and losses                         | <u>(6,499)</u>                 | <u>(7,370)</u>                    |
| <b>OPERATING PROFIT / LOSS</b>                     | (6,600)                        | 16,266                            |
| - Taxation   | 2,011                          | (3,505)                           |
| <b>NET PROFIT / LOSS</b>                           | <u>(4,589)</u>                 | <u>12,761</u>                     |
| Consolidation eliminations                         | -                              | (355)                             |
| <b>NET PROFIT AFTER CONSOLIDATION ELIMINATIONS</b> | <u>(4,589)</u>                 | <u>12,406</u>                     |
| Profit from sale of subsidiary                     | 159,478                        | -                                 |
| <b>Net Profit from Discontinued Operations</b>     | <u>154,889</u>                 | <u>12,406</u>                     |

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### 35. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (cont'd)

Details of profit from the sale of subsidiary are as follow.

|                           |  |
|---------------------------|--|
| Name of Subsidiary        | Tekfenbank<br>Tekfenbank Finansal Kiralama |
| Percentage of shares sold | 70%  |

Net assets of disposed subsidiary Tekfenbank are as follows:

|  | 16 March 2007<br><u>Tekfenbank</u> |
|--|------------------------------------|
| <b>ASSETS</b>  |                                    |
| Cash and Cash Equivalents                                      | 393,404                            |
| Marketable Securities (net)                                    | 4,081                              |
| Turkish Central Bank Account                                   | 44,000                             |
| Loans and Loaned Securities                                    | 426,781                            |
| Financial Lease Receivables (net)                              | 9,435                              |
| Other Assets   | 3,466                              |
| Financial Assets (net)   | 57,082                             |
| Tangible Assets (net)  | 17,592                             |
| Intangible Assets (net)  | 630                                |
| Deferred Tax Assets  | 2,315                              |
| Total Assets   | <u>958,786</u>                     |
| <b>LIABILITIES</b>   |                                    |
| Financial Liabilities (net)                                    | 106,163                            |
| Deposit  | 755,166                            |
| Other Liabilities and Payables                                 | 19,648                             |
| Total Liabilities  | <u>880,977</u>                     |
| <b>Net Asset Sold</b>  | <u>77,809</u>                      |
| Tax charge undertaken due to the sale (Note:41)                | 14,217                             |
| Other commitments undertaken due to the sale (Note:10)         | 6,146                              |
| Expenses undertaken due to the sale                            | 6,645                              |
| Revaluation fund realized in profit / loss accounts            | (2,458)                            |
| Total Cost   | <u>102,359</u>                     |
| Proceeds to Group from the sale                                | <u>261,837</u>                     |
| Gain on sale (net)   | 159,478                            |
| Minority interest share before the sale                        | 1.77%                              |
| Effect of sale of subsidiary on<br>minority interest (Note:24) | <u>1,967</u>                       |

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**35. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (cont'd)**

Cash flow table of discontinued operations as of the nine month interim period ended on 31 December 2007 is as follow:

|  | <u>16 March-<br/>31 December<br/>2007</u> |
|--|---|
| Changes in cash and cash equivalents   | 300,682                                   |
| Changes in marketable securities   | (79,613)                                  |
| Change in reserves in Turkish Central Bank                                   | 14,823                                    |
| Changes in loans and marketable securities associated with repo transactions | (31,009)                                  |
| Changes in financial lease receivables                                       | 1,147                                     |
| Changes in other current assets  | 431                                       |
| Changes in available for sale assets   | 42,666                                    |
| Effect of discontinued operations in tangible and intangible assets          | (333)                                     |
| Tax provision net of monetary gain/(loss)                                    | 1,963                                     |
| Changes in loans   | 760                                       |
| Changes in deposits  | (255,352)                                 |
| Changes in other short term liabilities                                      | (617)                                     |

**36. OPERATING INCOME**

| <u>Revenue</u>                                     | <u>1 January-<br/>31 December<br/>2007</u> | <u>1 January<br/>31 December<br/>2006</u> |
|--|--|---|
| Domestic goods and merchandise sales               | 853,517                                    | 616,831                                   |
| Export goods and merchandise sales                 | 8,841                                      | 23,750                                    |
| Contract revenue - domestic                        | 69,187                                     | 93,563                                    |
| Contract revenue - abroad                          | 662,286                                    | 685,136                                   |
| Contract revenue from<br>joint ventures – domestic | 32,976                                     | 87,048                                    |
| Contract revenue from<br>joint ventures – abroad   | 264,989                                    | 206,830                                   |
| Textile products revenue                           | 11,315                                     | 16,892                                    |
| Other  | 660  | 4,711                                     |
| Sales returns (-)                                  | (2,532)                                    | (3,512)                                   |
| Sales discount (-)                                 | (2,731)                                    | (2,847)                                   |
| Other sales discount (-)                           | (3,176)                                    | (2,623)                                   |
|  | <u>1,895,332</u>                           | <u>1,725,779</u>                          |

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**36. OPERATING INCOME (cont'd)**

|   | 1 January-<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|---|-----------------------------------|----------------------------------|
| <u>Cost of revenue</u>                          |                                   |                                  |
| Cost of goods sold                              | (406,802)                         | (316,934)                        |
| Cost of merchandises sold                       | (249,551)                         | (193,485)                        |
| Contract cost - domestic                        | (53,880)                          | (78,778)                         |
| Contract cost - abroad                          | (636,572)                         | (587,896)                        |
| Contract cost from<br>joint ventures - domestic | (25,162)                          | (73,623)                         |
| Contract cost from<br>joint ventures - abroad   | (239,405)                         | (171,338)                        |
| Cost of textile products                        | (13,314)                          | (16,365)                         |
| Other   | (1,252)                           | (16,460)                         |
|   | <u>(1,625,938)</u>                | <u>(1,454,879)</u>               |

The Group has 60,404 depreciation and amortization expenses and 133,951 personnel expenses in cost of revenue for the year ended 31 December 2007. (For the year ended 31 December 2006, 44,991 depreciation and amortization expense; 109,483 personnel expense).

|                                     | 1 January-<br>31 December<br>2007 | 1 April-<br>31 December<br>2006 |
|-------------------------------------|-----------------------------------|---------------------------------|
| <u>Income from other operations</u> |                                   |                                 |
| Rent income                         | 5,324                             | 7,445                           |
| Dividend income                     | 7,326                             | 9,270                           |
|                                     | <u>12,650</u>                     | <u>16,715</u>                   |

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#### 37. OPERATING EXPENSES

|   | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|---|----------------------------------|----------------------------------|
| Transportation expenses                         | (57,117)                         | (42,756)                         |
| Payroll expenses and fringe benefits            | (45,386)                         | (45,660)                         |
| Office administration expenses                  | (12,964)                         | (8,897)                          |
| Consultancy expenses                            | (9,302)                          | (12,278)                         |
| Amortisation expenses                           | (6,728)                          | (8,497)                          |
| Premium expense                                 | (5,410)                          | (1,831)                          |
| Other expenses                                  | (4,541)                          | (5,123)                          |
| Rent expenses                                   | (3,055)                          | (1,692)                          |
| Receivables written-off                         | (2,558)                          | (4,396)                          |
| Traveling expenses                              | (2,058)                          | (2,232)                          |
| Bank and notary expenses                        | (1,626)                          | (2,440)                          |
| Provision for doubtful receivables              | (1,571)                          | (3,903)                          |
| Provision for vacation pay                      | (1,475)                          | (1,560)                          |
| Reserve for diminution in value of subsidiaries | (768)                            | (1,473)                          |
| Reversal of unnecessary provision               | 2,610                            | 205                              |
|   | <u>(151,949)</u>                 | <u>(142,533)</u>                 |

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**38. OTHER INCOME/EXPENSES AND PROFIT/LOSSES**

|  | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|--|----------------------------------|----------------------------------|
| <u>Other Operating Income and Profit</u>   |                                  |                                  |
| Group's share on net<br>profit of investment<br>accounting by equity method(Note:16) | 8,463                            | -                                |
| Rent income  | 6,258                            | 3,866                            |
| Scrap sale income  | 1,778                            | -                                |
| Gain on sale of fixed assets   | 2,321                            | 7,188                            |
| Reversal of other unnecessary provision  | 1,079                            | 1,137                            |
| Previous periods income  | 555                              | 975                              |
| Effect of liquidation  | 492                              | 3,283                            |
| Damage and indemnity income  | 420                              | 1,157                            |
| Other income   | 4,991                            | 3,818                            |
|  | <u>26,357</u>                    | <u>21,424</u>                    |

|   | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|---|----------------------------------|----------------------------------|
| <u>Other Operating Expense and Losses</u> |                                  |                                  |
| Other expenses and losses                 | (6,868)                          | (4,849)                          |
| Litigation provision                      | (4,231)                          | (3,056)                          |
| Previous year's losses and expenses       | (1,632)                          | (456)                            |
| Damages subject to litigation             | (1,339)                          | (2,095)                          |
| Commission expense                        | (601)                            | (2,415)                          |
| Penalty and damages paid                  | (338)                            | (460)                            |
| Write off VAT receivable                  | -                                | (2,258)                          |
|   | <u>(15,009)</u>                  | <u>(15,589)</u>                  |

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#### 39. FINANCE EXPENSES (NET)

|                                       | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2,006 |
|---------------------------------------|----------------------------------|-----------------------------------|
| Interest expenses                     | (48,625)                         | (59,928)                          |
| Foreign exchange gains / losses (net) | 32,162                           | (11,649)                          |
| Rediscount income / (expense) (net)   | (109)                            | 700                               |
| Securities sale profit/loss           | 81                               | 142                               |
| Interest income                       | 25,942                           | 10,047                            |
|                                       | <u>9,451</u>                     | <u>(60,688)</u>                   |

#### 40. NET MONETARY GAIN/LOSS

Net monetary gain/loss is not calculated since the inflation accounting has been ceased as of 1 January 2005.

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#### 41. TAXATION

| <u>Tax payable</u>    | <u>31 December<br/>2007</u> | <u>31 December<br/>2006</u> |
|-----------------------|-----------------------------|-----------------------------|
| Current tax provision | 34,673                      | 3,563                       |
| Prepaid tax and funds | (11,891)                    | (3,273)                     |
|                       | <u>22,782</u>               | <u>290</u>                  |

  

| <u>Tax provision:</u>   | <u>1 January<br/>31 December<br/>2007</u> | <u>1 January<br/>31 December<br/>2006</u> |
|---|---|---|
| Current tax provision   | 34,673                                    | 3,563                                     |
| Effect of sale of a subsidiary on<br>discontinued operations (Note: 35)                 | (14,217)                                  | -   |
| Deferred tax expense (Note: 14)   | 2,598                                     | 25,195                                    |
| Adjustments recognised in current year<br>in relation to the current tax of prior years | 1,380                                     | (476)                                     |
| Reversal of unnecessary tax provisions (*)  | -   | (6,131)                                   |
| Transaction difference  | 1,459                                     | 22  |
|   | <u>25,893</u>                             | <u>22,173</u>                             |

(\*)Revenue associated with construction projects attributable to some of the Group's Branches in foreign countries is measured based on the stage of completion and tax is levied in accordance with the tax base calculated from this measurement. In some of the branches, some of the tax provisions made in the prior period are released due to project end estimation changes, and accordingly, those amounts are recognized as tax income in the statements of income.

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#### 41. TAXATION (cont'd)

|  | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|--|----------------------------------|----------------------------------|
| <u>Reconciliation of taxation:</u>                           |                                  |                                  |
| Profit / (Loss) before tax                                   | 150,261                          | 90,742                           |
| Profit from discontinued operations                          | 154,889                          | 12,406                           |
| Loss before tax after monetary gain                          | 305,150                          | 103,148                          |
| Expected taxation (*)  | 50,012                           | 13,916                           |
| <u>Reconciliation of expected tax to actual tax</u>          |                                  |                                  |
| - Undeductable expenses                                      | 11,694                           | 7,948                            |
| - Dividend and other<br>non-taxable income                   | (760)                            | (760)                            |
| - Carry forward tax losses deducted in current year          | (3,804)                          | (8,286)                          |
| - Provision for unrealizable tax losses (**)                 | 3,045                            | 4,705                            |
| - Investment incentive                                       | (75)                             | 2,022                            |
| - Effect of discontinued operations                          | (14,217)                         | (2,552)                          |
| - Tax effect of sale of subsidiary                           | (22,569)                         | -                                |
| - Tax commitments fall out as a result of the sale           | 1,229                            | -                                |
| - Effect of tax rate change<br>and consolidation adjustments | 1,819                            | 5,180                            |
| - Other  | (481)                            | -                                |
| Taxation   | 25,893                           | 22,173                           |

(\*)Different rates are applied for different countries where the foreign companies and joint ventures are located.

(\*\*)As of 31 December 2007 and 31 December 2006, total tax effect amount of one of Group's joint ventures calculated based on the loss for the current year less the Group's share amounting to 3,045 (31 December 2006: (4,705))

#### Tax legislation in Turkey:

##### Corporate Tax:

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the year.

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

The effective rate of tax in 2007 is 20% (2006: 20 %)

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#### 41. TAXATION (cont'd)

##### Tax legislation in Turkey (cont'd):

##### Corporate Tax (cont'd):

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2007 is 20% (2006: 20 %). The excess temporary tax paid of corporate income that was calculated at the rate of 30% during the taxation of the corporate income in temporary taxation periods after 1 January 2006 over 20% will be deducted from future temporary tax returns.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1 - 25 April following the close of the accounting year to which they relate (Companies with special accounting periods file their tax returns between 1- 25 of the fourth month subsequent to the fiscal year end). Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

##### Income Withholding Tax:

Since 75% of sale proceeds from subsidiary and fixed asset acquisitions, to the extent that they are at hand less than two years, are included in capital in for five years, they are exempt from tax.

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Income withholding tax calculated in 2002 and prior years over specific income that are exempt from withholding tax, irrespective of any distribution, are superseded in general. However, 19,8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to the extent that the Group companies' profits are subject to exemption. If companies fail to make profit or incur losses, any allowance outstanding may be carried forward to 2008 year end, to be deducted from the taxable income for future profitable years.

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#### 41. TAXATION (cont'd)

##### Taxation of Foreign Subsidiaries and Operations:

Subsidiaries and operations included in consolidation in the accompanying financial statements are subject to corporate tax and withholding tax effective in the relevant country. Effective tax rates in those countries in which the Group operates are summarized below:

| <u>Countries</u>     | <u>Corporate Tax<br/>Rate %</u> | <u>Withholding Tax<br/>Rate %</u> |
|----------------------|---------------------------------|-----------------------------------|
| Azerbaijan           | 22%                             | 10%                               |
| Bulgaria             | 10%                             | 0%-10%                            |
| Kazakhstan           | 30%                             | 15%-20%                           |
| Uzbekistan           | 18%                             | 10%-20%                           |
| Germany              | 38%-40%                         | 0%-20%                            |
| Saudi Arabia         | 20%                             | 5%-20%                            |
| Luxembourg           | 29,63%                          | 0%-15%                            |
| Ireland              | 12,5%                           | 20%                               |
| England              | 30%                             | 30%                               |
| Morocco              | 35%                             | 10%                               |
| Kuwait               | 55%                             | 0%                                |
| Libya                | 0%                              | 5%-10%                            |
| Oman                 | 0-30%                           | 10%                               |
| United Arab Emirates | 0%                              | 0%                                |
| Qatar                | 0%-35%                          | 0%                                |

Withholding tax rates in Kazakhstan, Germany, and Saudi Arabia vary according to the nature of the business. Since the Group, operations in Luxembourg are only related to the investments to subsidiaries and providing loans to these investments, these activities are not subject to corporate tax. The Group's construction project in Libya is not subject to corporate tax.

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#### 42. EARNING PER SHARE

Calculation of earning per share for the current period is made in accordance with IAS 33 considering the effects of shares and bonus shares issued.

As of 31 December 2007 and 2006, the Group's weighted average number of shares and computation of earnings per share (which corresponds to per share amounting to TRY 1) set out here are as follows:

|   | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|---|----------------------------------|----------------------------------|
| Number of outstanding shares at the starting of the period  | 104,000                          | 40,500                           |
| Number of issued shares:                                    |                                  |                                  |
| - Transfer from inflation adjustment on equity              | 31,413                           | 63,500                           |
| - Other funds   | 2,576                            | -                                |
| - Transfer from gain on sale of subsidiary and fixed assets | 92,011                           | -                                |
| -Capital increase paid in cash                              | 66,775                           | -                                |
| Number of outstanding shares as the end of period           | <u>296,775</u>                   | <u>104,000</u>                   |
| Weighted average number of outstanding shares (*)           | 241,129                          | 230,000                          |
| Number of preferred share                                   | -                                | 116,961                          |
| Number of common share                                      | 241,129                          | 113,039                          |
| Profit/loss for preferred shareholders                      | -                                | 34,653                           |
| Profit/loss for common shareholders                         | <u>124,368</u>                   | <u>33,916</u>                    |
| Profit/loss from continued operations                       | 124,368                          | 68,569                           |
| Profit/loss from discontinued operations                    | <u>154,889</u>                   | <u>12,406</u>                    |
| Net profit for the period                                   | <u><u>279,257</u></u>            | <u><u>80,975</u></u>             |

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#### 42. EARNING PER SHARE (cont'd)

|   | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|---|----------------------------------|----------------------------------|
| Profit from continued and discontinued operations : |                                  |                                  |
| - profit/loss for preferred shareholders            | -                                | 40,922                           |
| - profit/loss for common shareholders               | 279,257                          | 40,053                           |
|   | <u>279,257</u>                   | <u>80,975</u>                    |
| <b>Net profit/loss per preferred share (**):</b>    |                                  |                                  |
| Calculated from continued operations:               | -                                | 0.297                            |
| Calculated from discontinued operations:            | -                                | 0.053                            |
|   | <u>-</u>                         | <u>0.350</u>                     |
| <b>Net profit/loss per common share :</b>           |                                  |                                  |
| Calculated from continued operations:               | 0.516                            | 0.301                            |
| Calculated from discontinued operations:            | 0.642                            | 0.054                            |
|   | <u>1.158</u>                     | <u>0.355</u>                     |

(\*)The company transferred 31.413 from inflation correction adjustment and 94.587 from accumulated gain/(loss)to capital at 2007 In accordance with paragraphs 21 and 22 of IFRS 33 "Earnings per Share", the number of ordinary shares outstanding are adjusted for the bonus share issued as if the increase had occurred at the beginning of the increase period presented.

(\*\*) Preferred shareholders valid at 2006 receive additional dividends calculated as 5 % of paid in capital more compared to common shareholders.

The Company decided to change original contract in 8 November 2007 and removed the clause related with paying dividends amounted as 5% of paid capital to the owners of A Series preferred share. Therefore during the calculations of gains per share as of 31 December 2007, preferred shares are excluded.

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**43. CASH FLOW STATEMENTS**

Changes in working capital:

|   | Note | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|---|------|----------------------------------|----------------------------------|
| Changes in loans and loaned securities            | 35   | -                                | (328,329)                        |
| Changes in trade receivables                      | 7    | (16,312)                         | (58,273)                         |
| Changes in inventories                            | 12   | (13,299)                         | (37,417)                         |
| Changes in trade payables                         | 7    | (56,214)                         | 158,256                          |
| Change in other payables                          | 10   | (1,756)                          | (4,787)                          |
| Changes in other receivables                      | 10   | 6,388                            | (25,603)                         |
| Changes in unbilled contract revenues             | 13   | (48,921)                         | (142,645)                        |
| Change in provision                               | 23   | (14,315)                         | (9,612)                          |
| Changes in due to related parties                 | 9    | (9,938)                          | 9,348                            |
| Changes in other current assets                   | 15   | 1,810                            | (11,129)                         |
| Changes in due from related parties               | 9    | (1,057)                          | (10,230)                         |
| Changes in finance lease receivables              | 8    | (111)                            | (16,477)                         |
| Changes in other short-term liabilities           | 15   | (8,229)                          | 42,540                           |
| Changes in advances received                      | 21   | 84,321                           | 47,643                           |
| Changes in billings in excess of contract revenue | 13   | (25,693)                         | 3,877                            |
| Changes in deposits                               | 35   | -                                | 311,707                          |
|   |      | <u>(103,326)</u>                 | <u>(71,131)</u>                  |

Changes in other investing activities:

|   | Note | 1 January<br>31 December<br>2007 | 1 January<br>31 December<br>2006 |
|---|------|----------------------------------|----------------------------------|
| Changes in financial assets held to maturity date |      | -                                | 3,498                            |
| Changes in long term advanced received            | 21   | 16,720                           | 2,134                            |
| Changes in long term receivables                  | 7    | (7,445)                          | 325                              |
| Changes in long term trade payables               | 7    | (15,663)                         | 11,952                           |
| Changes in other long term receivables            | 10   | (1,125)                          | (7,388)                          |
| Changes in other long term assets                 | 15   | 568                              | 998                              |
| Changes in other long term liabilities            | 10   | (13,098)                         | (10,512)                         |
| Changes in long term loans and loaned securities  |      | -                                | 9,648                            |
|   |      | <u>(20,043)</u>                  | <u>10,655</u>                    |

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#### **44. OTHER ISSUES TO BE EXPLAINED AS A MANDATORY MATTER TO RENDER THE FINANCIAL STATEMENTS CLEAR, INTERPRETABLE AND COMPREHENSIBLE OR AFFECTING THE FINANCIAL STATEMENTS SIGNIFICANTLY**

None.

#### **45. ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS**

##### **(a) Capital Risk Management**

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and the equity balance.

The capital structure of the Group consists of debt which includes the borrowings disclosed in Note: 6 cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note: 25, 26, 27 and 28.

The Group's strategy is same as 2006.

##### **(b) Significant accounting policies**

The Group's accounting policies about financial instruments are disclosed in Note: 3 "Summary of Significant Accounting Policies" to the financial statements.

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**1. ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS (cont'd)**

| 31 December 2007  | Financial assets at amortized cost | Loans and receivables | Available for sale | Financial liabilities at amortized cost | Carrying value | Fair value | Note |
|---|------------------------------------|-----------------------|--------------------|---|----------------|------------|------|
| <u>Financial assets</u>   |                                    |                       |                    |   |                |            |      |
| Cash and cash equivalents   | 521,653                            | -                     | -                  | -                                       | 521,653        | 521,653    | 4    |
| Trade receivables (trade receivables from related parties included) | -                                  | 342,283               | -                  | -                                       | 342,283        | 342,283    | 7, 9 |
| Long term trade receivables   | -                                  | 12,789                | -                  | -                                       | 12,789         | 12,789     | 7    |
| Receivables from ongoing construction contracts                     | -                                  | 254,824               | -                  | -                                       | 254,824        | 254,824    | 13   |
| Financial assets classified as held for sale                        | -                                  | -                     | 59,438             | -                                       | 59,438         | 59,438     | 16   |
| <u>Financial liabilities</u>  |                                    |                       |                    |   |                |            |      |
| Bank loans  | -                                  | -                     | -                  | 324,702                                 | 324,702        | 324,702    | 6    |
| Trade payables (trade payables to related parties included)         | -                                  | -                     | -                  | 340,832                                 | 340,832        | 340,832    | 7, 9 |
| Long term trade payables  | -                                  | -                     | -                  | 1,805                                   | 1,805          | 1,805      | 7    |

| 31 December 2006  | Financial assets at amortized cost | Loans and receivables | Available for sale | Financial liabilities at amortized cost | Carrying value | Fair value | Note |
|---|------------------------------------|-----------------------|--------------------|---|----------------|------------|------|
| <u>Financial assets</u>   |                                    |                       |                    |   |                |            |      |
| Cash and cash equivalents   | 209,484                            | -                     | -                  | -                                       | 209,484        | 209,484    | 4    |
| Trade receivables (trade receivables from related parties included) | -                                  | 322,518               | -                  | -                                       | 322,518        | 322,518    | 7, 9 |
| Long term trade receivables   | -                                  | 5,344                 | -                  | -                                       | 5,344          | 5,344      | 7    |
| Receivables from ongoing construction contracts                     | -                                  | 205,903               | -                  | -                                       | 205,903        | 205,903    | 13   |
| Financial assets classified as held for sale                        | -                                  | -                     | 60,607             | -                                       | 60,607         | 60,607     | 16   |
| <u>Financial liabilities</u>  |                                    |                       |                    |   |                |            |      |
| Bank loans  | -                                  | -                     | -                  | 591,736                                 | 591,736        | 591,736    | 6    |
| Trade payables (trade payables to related parties included)         | -                                  | -                     | -                  | 406,885                                 | 406,885        | 406,885    | 7, 9 |
| Long term trade payables  | -                                  | -                     | -                  | 18,824                                  | 18,824         | 18,824     | 7    |

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### 45. ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS (cont'd)

#### (d) Financial risk management objectives

The Group's corporate treasury function provides services to the business, coordinates access to domestic and international markets, monitors, and manages the financial risks relating to the operations of the Group through internal risk reports, which analyses exposures by degree and magnitude of risk. These risks include market risk (including currency risk, fair value interest rate risk and price risk) credit risk, liquidity risk and cash flow interest rate risk.

The Group does not enter in to or trade financial instruments, including derivative financial instruments for speculative purposes.

#### (e) Market Risk

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates (refer to section f) and interest rates (refer to section g).

At a Group level market risk exposures are measured by sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner which it manages and measures the risk.

#### (f) Foreign Currency Risk Management

The Group's assets and liabilities denominated in foreign currencies are disclosed in Note: 29.

##### Foreign currency sensitivity

The Group undertakes certain transactions denominated in USD and EUR hence exposures to certain exchange rate fluctuations arise.

The table in the below analyzed the 10% increase or decrease interest rate sensitivity of the Group in USD and EUR. Negative amounts shows the decrease, positive amount shows the increase in the net profit.

|             | Effect of USD (i)                 |                                   | Effect of EUR (ii)                |                                   |
|-------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|             | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 | 1 January-<br>31 December<br>2007 | 1 January-<br>31 December<br>2006 |
| Profit/Loss | (14,839)                          | (33,582)                          | 1,070                             | 45                                |

(i) This is mainly attributable to the exposure to outstanding trade receivables and payables denominated in USD.

(ii) This is mainly attributable to the exposure to outstanding trade receivables and payables denominated in EUR.

The change in the profit or loss due to a 10% change in the USD and EUR would impact the profit and loss statement as above.

#### (g) Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The Group exposures to the interest rates on financial liabilities are detailed in Note: 6.

##### Interest rate sensitivity

The Group's USD denominated financial borrowings have variable interest rates indexed to Libor accordingly the Group is exposed to interest rate risk due to the fluctuations in Libor rates. At the reporting date if the Libor rate had been 0.5% higher/lower and all other variables were held constant the Group's net profit would increase/ decrease 23 (1 January-31 December 2006: 89).

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**45. ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS (cont'd)**

**(h) Other price risks**

The Group does not hold equity investments as of the reporting date there the Group is not exposed to other currency risks.

**(i) Credit risk management**

Credit risks refer to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of the transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The financial assets carrying value after deduction of necessary impairment reserves, presented in the accompanying financial statements indicates the Group's maximum credit risk.

**(j) Liquidity risk management.**

The Group management has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

Liquidity and interest rate risk tables

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets.

|                          | Less than<br>one month | 1-3 month | 3 month-1<br>year | 1-5 year | After 5<br>year | Adjustment | Amount of<br>balance sheet |
|--------------------------|------------------------|-----------|-------------------|----------|-----------------|------------|----------------------------|
| <b>31 December 2007</b>  |                        |           |                   |          |                 |            |                            |
| Bank loans               | 62,345                 | 63,532    | 200,068           | 7,692    | 31              | (8,966)    | 324,702                    |
| Financial lease payables | 2,648                  | 2,277     | 25,307            | 68,090   | -               | (35)       | 98,287                     |
| Trade payables           | 36,150                 | 231,860   | 72,287            | 1,911    | -               | (1,278)    | 340,930                    |
| Due to related           | 5                      | 187       | 1,515             | -        | -               | -          | 1,707                      |
| <b>31 December 2006</b>  |                        |           |                   |          |                 |            |                            |
| Bank loans               | 48,596                 | 105,363   | 401,321           | 52,289   | -               | (15,833)   | 591,736                    |
| Financial lease payables | 3,068                  | 1,316     | 9,677             | 16,818   | -               | (16)       | 30,863                     |
| Trade payables           | 117,817                | 224,569   | 53,068            | 18,787   | -               | (177)      | 414,064                    |
| Due to related           | 692                    | 702       | 10,251            | -        | -               | -          | 11,645                     |

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#### 46. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group Management has considered the following critical accounting decisions and estimations that have significant impact on financial statements, in application of accounting policies:

##### Forward looking financial statements:

Due to the nature of the construction business and the method of accounting (percentage of completion) as well as intensive usage of the management estimates, the financial statements itself are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently being anticipated as reflected in such forward looking statements. Factors which may cause future outcomes to differ from those foreseen in forward looking statements include, but are not limited to: exchange rate fluctuations and factors affecting contracting clients' final acceptance of construction projects.

##### Change in contract fee

Changes in contract fees are recognized in the financial statements to the extent that those changes are likely to be approved by the customers, based on the percentage of completion method of the construction projects' estimates on the collection of those changes are made based on the Group management's past experiences, the related contract terms and the related legislation.

##### Percentage of completion

The Group uses the percentage of completion method in accounting for its construction contracts. Use of the percentage of completion method requires the Group to estimate the proportion of work performed to date as a proportion of the total work to be performed and its management's judgment that the use of costs to date in proportion to total estimated costs provided the most appropriate measure of percentage of completion.

##### Guarantee Provision of warranty liabilities

Management grants guarantee period for commitments of constructional segment up to 2 year. Management estimates warranty provision amount related to potential damages in the future based on the experiences of the management. Current developments and activities in recent periods are taken in to account for developing forecasts and estimations.

##### Key sources of estimation uncertainty

Departures from the estimation related to the completion costs of construction projects or estimated profit for the project-end may change the carrying amount of the assets and liabilities.

The Group uses construction experts and project directors during the estimation of future costs attributable to construction contracts. Potential escalations of unit prices and quantity are considered in the estimations related to raw material, labour and other costs.

##### Retention guarantees in construction contracts

At each year-end, retentions related to construction contracts deducted from progress payments by customers and deductions made from sub-contractors by the Group are carried at their fair value less discounting the Group's effective deposit and borrowing rates of which the management considers to be the best discount rates for those assets and liabilities.

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