ALKİM KAĞIT SANAYİ VE TİCARET A.Ş.

ANNUAL REPORT 2005

Our Esteemed Partners,

Welcome to our Ordinary General Committee meeting regarding our activities in 2005. We kindly present respect and love of our Board of Directors.

Although it is possible to explain that there are positive developments for our country in 2005 in macro level, it is hard to say that there is a very positive picture for real sector. Especially, we think that this year is a fairly bad year for both domestic producer and exporter. The problem is not only due to non-realization of export; it is also due to foreign money exchange rates significantly devaluating against YTL and dominancy of import substitution in domestic markets leading difficulty in sales of domestic producers which results in putting back of production.

In terms of our sector, in addition to the heavy pressure of above mentioned low exchange rates and over-valued YTL on manufacture sector, it can be said that serious problems also experienced in European paper market and still being experienced. In spite of high raw material prices, as a result of low product prices and negative market conditions arisen by new rivals (China), we see that significant producers, besides European Paper producers including in the USA and Canada leading countries of the sector, are experiencing hard days and also some of them closed business.

When we evaluate economic data, it can be seen that;

YEAR	USD	EURO	PARITY	% INFLATION
2003	1.3933	1.7575	1.2614	25.60
2004	1.3363	1.8233	1.3645	11.10
2005	1.3418	1.5875	1.1831	8.24

While cost-raising (salaries, amortization, energy, etc.) effect of the entries especially in YTL was being experienced, both in domestic and foreign markets difficulties are experienced in sales of products prices of which are indexed to foreign currency. In order to pace up with the market competition, we had to decrease our prices three times in a year and also extend the payment terms.

In order to overcome domestic and foreign negativities, besides operations on prices and due dates, we carried out lots of activities especially to run down the costs.
These can be listed as such: Closure of Main Warehouse, Moving of General Directorate to the Factory, Extension of purchasing due dates, and price adjustment for foreign exchange indexed purchases. Other practices that we consider important at least these can be listed as; to increase productivity and quality in our production processes and all our operations. Our philosophy during all these precautions is; sustainable productivity, quality and profitability. In order to achieve them, what we should do first and are doing is to terminate operations without added value.

Our management believing in that all these negative conditions can be overcome with correct steps has not neglected its approach on production modernization and quality within years, and being aware of the effects of capacity on costs it has made investments supporting the increase in this issue.
The investments in 2005 can be expressed such as; renewal of old systems, partial increase of machine speed, and enhancement of glossy paper quality by adapting unconventional hot oil system.

The evaluation on capacity can be expressed such;

(Ton-Gross)/ Year	2003	2004	2005
PRODUCTION	52.295	53.381	63.723

As a result of capacity increase and rebuilding operations between the last term of 2004 and first terms of 2005, the machine was put into service again, and due to significant scrap output, net production of 2005 was realized about 56.000 tons. As of the end of 2005, our stocks increased.

65.000 tons of production is targeted in 2006.

(Ton-Gross)/ Year	2003	2004	2005
SALE	47.284	47.958	53.513

Sale around 68.000 and 70.000 ton is targeted.

Consequently;

We closed the year 2005 with loss that negative economic data were obtained, and investments spread to two years are completed and significant amortization burdens of this were collected. Our classic Financial Balance Sheet, which was prepared according to Tax Procedure Law, closed with a loss of 6.6 million YTL. The main reason of this serious loss reflected on paper sector that showed its negative effect similarly on all real sectors as well is: the dilemma between low dollar and valuable YTL which made our country a "heaven of imported products". Cheap paper began to flow in the country due to cheap foreign currency and our cost – sale price was destabilized under the pressure of heavy low price especially beginning from the second half of 2005. This is certainly a situation occurred out of our control and we evaluate it as a result led by both international conjecture and indispensability of investment which is "sine qua non" of industry.

In our financial tables, which consider the numbers adjusted according to the inflation and real amortization ratios, and are prepared and audited in accordance with the implementations of S.P.K (Capital Markets Board) Taken As Basis for Open to Public and Quoted on the Stock Market such like us, we closed the year 2005 with a loss of 3,064,089 YTL. However, it must be expressed that 4,205.905 YTL amortization expense and 259,954 YTL seniority equivalence cost not subjected to the real output is included.

Our company is beginning to 2006 by completing its investments, implementing the amendatory activities in business designs, and surmounting the problems of capacity and productivity. Our belief in that the market will also provide the supporting improvements for us is seen from the monitored processes.

We wish for a better 2006 together and in cooperation with our personnel, our most significant resource, and present our best regards and respects to you our partners.

Alkim Kagit – Board of Directors

1. INTRODUCTION

1.1 PERIOD OF THE REPORT : 01.01.2005 – 31.12.2005

1.2 TITLE OF THE COMPANY : ALKİM KAĞIT SANAYİ VE TİCARET A.Ş.

1.3 BOARD OF DIRECTORS :

A) The names of the Board of Directors who were selected for 2 years and of Supervisory Board who were selected for 1 year under the articles 7 and 9 of the Articles of Association, are listed below:

Title	Name / Last Name		
Chairman of the Board of Directors	NİHAT ERKAN	13.04.2004	13.04.2006
Vice Chairman of the Board of Directors	FERİT KORA	13.04.2004	13.04.2006
Member of the Board of Directors	MİTHAT KORA	13.04.2004	13.04.2006
Member of the Board of Directors	KADRİ ÖNEL	13.04.2004	13.04.2006
Member of the Board of Directors	İSMAİL ALTILAR	13.04.2004	13.04.2006
Member of the Board of Directors	ÖZAY KORA	11.04.2005	13.04.2006

Supervisor	M.YÜKSEL KADIOĞLU	24.03.2005	24.03.2006

B) Limit of authority:
It is specified in both Turkish Commercial Code and Articles of Association

1.4. Amendments on Articles of Association within the term:

1.4.1. No amenment was made on the Articles within the term.

1.5. The capital and share distribution of the Company (Participation Share)

1.5.1 Capital Position

The capital of the company is 52.500.000 YTL.. No capital increase in 2005.The shares corresponding to 20 % of the capital are being traded in the Istanbul Stock Exchange.

Paid in capital and dividend shares and dividend rates are shown below at an annual basis:

Paid in Capital (YTL)	Year	Dividend Share	Dividend Rate
11.200.000	1999	0.000003	0.33%
14.000.000	2000	(no profit distribution affected)	-
17.500.000	2001	0.000090	9.00%
17.500.000	2002	0.000165	16.50%
35.000.000	2003	(no profit distribution affected)	-
52.500.000	2004	(no profit distribution affected)	-
52.500.000	2005	-	-

1.5.2. Stocks:

The stocks representing the company capital, each having a nominal value of 1.-YTL, are as follows with regard to group, arrangement and number of shares:

A GROUP	REGISTERED	1ST ARRANGEMENT	3,750	SHARE	0.000071
B GROUP	REGISTERED	1ST ARRANGEMENT	3,000	SHARE	0.000057
C GROUP	REGISTERED	1ST ARRANGEMENT	3,138	SHARE	0.000060
D GROUP	REGISTERED	1ST ARRANGEMENT	112	SHARE	0.000002
E GROUP	REGISTERED	1ST ARRANGEMENT	1,190,000	SHARE	0.022667
F GROUP	BEARER	1ST ARRANGEMENT	10,000,000	SHARE	0.190476
F GROUP	BEARER	2ND ARRANGEMENT	2,800,000	SHARE	0.053333
F GROUP	BEARER	3RD ARRANGEMENT	3,500,000	SHARE	0.066667
F GROUP	BEARER	4TH ARRANGEMENT	17,500,000	SHARE	0.333333
F GROUP	BEARER	5TH ARRANGEMENT	17,500,000	SHARE	0.333333
		TOTAL	52,500,000	SHARE	

1.5.3. Associate Status:

Number of the shareholders including the owners of registered to name stocks is 13. Numbers of the shareholders including the owners of bearer stocks and of stocks offered to public are unkown.

Our shareholders owning more than 10 % of the association capital are listed below:

Name, Last Name	Share Amount (1.- YTL/Share)	Percentage in Capital %
ALKİM ALKALİ KİMYA A.Ş.	36.712.500	69,93
OFFERED TO PUBLIC	10.500.000	20,00
OTHERS (*)	5.287.500	10,07

(*) Alkim Alkali Kimya A.Ş. being the main partner of the company, in accordance with the decision given at the general meeting held on 15th April 2004, has delivered the shares of 12.51 % that it owns on 16th June 2004 to Clearing Bank. These shares constituting 10% of our capital are still in Istanbul Stock Exchange Clearing Bank (İMKB Takas ve Saklama Bankası A.Ş). Thus, share percentage of Alkim Alkali Kimya A.Ş. has declined to 69.93 % from 79.93 %.

1.6. Securities

Within the term of activity no securities such as bond, revenue sharing certificate, financial bond, bonus certificate and alike have been issued.

1.7. Field of Activity of the Association:

Our company acts in the paper manufacturing sector. Our products of Offset, Coated, Photocopy and Office papers are used by both domestic and foreign press, printing houses, stationary and news press.

2. ACTIVITIES

2.A. INVESTMENTS

31 December 2005

Name of Investment in Progress	Total Amount Projected YTL	Total Expenditures YTL	Capitalized Amount YTL	Beginning Date	Completion Date	Completed Ratio (%)
Investment of DCS System	300.000,00	295.279,22		Ağu.04	on going	98%
Construction of Roll Warehouse	350.000,00	346.431,97		Kas.04	on going	99%
ROLL CUTTING CONTROL SYSTEM.	25.000,00	23.270,46		Nis.05	on going	93%
ADDITIONAL WAREHOUSE FOR PULP PREPARATION UNIT	47.867,75	47.867,75	47.867,75	Mar.04	Kas.05	100%
WATER WELL	343.596,17	343.596,17	343.596,17	Nis.04	Kas.05	100%
PRINTING MACHINE	30.163,24	30.163,24	30.163,24	Eyl.04	Kas.05	100%
PAPER MACHINE * 2nd *REVISION AND SPEED	313.248,09	313.248,09	313.248,09	Kas.04	Kas.05	100%
SCRAP PULPER REVISION	146.789,43	146.789,43	146.789,43	Kas.04	Kas.05	100%
RESEARCH AND DEVELOPMENT BUILDING	40.241,82	40.241,82	40.241,82	Oca.05	Kas.05	100%
WATER WELL (2)	263.607,54	263.607,54	263.607,54	Oca.05	Kas.05	100%
TRANSFORMER 3.	11.367,00	11.367,00	11.367,00	Şub.05	Kas.05	100%
TRADEMARK PATENT REGISTRY	8.569,99	8.569,99	8.569,99	Mar.05	Nis.05	100%
FORKLIFT-1 (VAT PROMOTION.)	42.654,70	42.654,70	42.654,70	Nis.05	Kas.05	100%
HOT OIL BOILER SYSTEM	286.239,27	286.239,27	286.239,27	May.05	Kas.05	100%
FORKLIFT-2 (VAT PROM.)	23.944,95	23.944,95	23.944,95	May.05	Kas.05	100%
FORKLIFT-3 (VAT PROM.)	65.293,80	65.293,80	65.293,80	Haz.05	Kas.05	100%
TOPLAM	**2.298.583,75**	**2.288.565,40**	**1.623.583,75**			

2.B) ACTIVITIES FOR PRODUCTION OF GOODS AND SERVICES

2.B.1) The net production capacity of our facilities as of 22.07.2005 is increased to 75,000 ton/year. Current year's production has realized such: capacity utilization ratio compared to our previous capacity is 92%, and 74 % compared to our new capacity. The net production amount and capacity utilization ratio by years are as given below:

Overall production in 2004: 47.425 Tones	60.000 tones	Capacity Utilization Percentage: 79 %
Overall production in 2005: 55.492 Tones	75.000 tones	Capacity Utilization Percentage: 74 %

2.B.2) The good and service production amounts realized by the company annually for separate main production groups:

	Unit	Amount by 31.12.2005	Amount by 31.12.2004
a-) Offset paper	Ton	32.364	20.330
b-) Coated Paper	Ton	13.838	16.487
c-) Photocopy paper	Ton	9.290	10.608
	TOTAL	**55.492**	**47.425**

2.B.3) The good and service sale amounts realized by the company annually for separate main production groups:

	Unit	Amount by 31.12.2005	Amount by 31.12.2004
a-) Offset paper	Ton	30.874	20.678
b-) Coated Paper	Ton	13.324	16.559
c-) Photocopy paper	Ton	9.315	10.721
	TOTAL	**53.513**	**47.958**

2.B.4) IMPROVEMENTS IN SELLING ACTIVITIES

Total of sales within 2005 is 53.513 TONS. 39.299 tons of these sales are domestic market (73%) sales and 14.214 tons are export (27%) sales. Total of our net sales for 2005 is 60.622.204 YTL. 58% offset paper, 25% glossy (coated) paper, 17% photocopy paper constitute the product sale for 2005.

DESCRIPTION	AMOUNT OF SALE TON	PERCENTAGE TO DOMESTIC SALES %	PERCENTAGE TO OVERALL SALES %	AVERAGE SALE PRICE (YTL/TONE)	NET SALES AMOUNT (YTL)
OFFSET	24.206	62%	45%	1.120	27.099.688
COATED	11.067	28%	21%	1.151	12.735.842
PHOTOCOPY	3.991	10%	7%	1.175	4.690.367
BLOCK NOTE	6	0%	0%	1.722	10.519
CONTINUOUS FORM	29	0%	0%	1.319	38.540
TOTAL OF DOMESTIC MARKET	39.299	100%	73%		44.574.957

DESCRIPTION	AMOUNT OF SALE TON	PERCENTAGE TO EXPORT SALES %	PERCENTAGE TO OVERALL SALES %	AVERAGE SALE PRICE (YTL/TONE)	NET SALES AMOUNT (YTL)
OFFSET	6.613	47%	12%	1.112	7.351.211
COATED	2.258	16%	4%	1.155	2.607.840
PHOTOCOPY	5.324	37%	10%	1.139	6.061.965
BLOCK NOTE	12	0%	0%	1.440	16.627
CONTINUOUS FORM	7	0%	0%	1.292	9.604
TOTAL OF EXPORT SALES	14.214	100%	27%		16.047.247

TOTAL TONNAGE	53.513	**TOTAL SALE AMOUNT**	60.622.204

2-C) INFORMATION ON FINANCIAL STRUCTURE:
The table and explanations listed below are presented in annex in order to show the financial structure of the company

II-C.1. CONSOLIDATED DETAILED BALANCE SHEET ISSUED ACCORDING TO THE COMMUNIQUE OF SPK SERIAL: XI NO: 25

	Notes	2005	Adjusted (*) 2004
ASSETS			
CURRENT ASSETS		**41.759.532**	**33.882.793**
Cash and cash equivalents	4	470.723	2.008.576
Marketable securities- net	5	244.233	-
Trade receivables- net	7	15.812.306	11.859.727
Leasing receivables- net	8	-	-
Due from related parties- net	9	144.910	141.397
Other receivables- net	10	2.257.655	1.208.649
Biological assets- net	11	-	-
Inventories- net	12	22.167.316	18.182.870
Receivable from construction contracts- net	13	-	-
Deferred tax assets	14	-	-
Other current assets	15	662.389	481.574
NON-CURRENT ASSETS		**71.546.529**	**74.631.530**
Trade receivables- net	7	-	-
Leasing receivables- net	8	-	-
Due from related parties- net	9	-	-
Other receivables- net	10	-	-
Financial assets- net	16	23.851	13.484
Positive/negative goodwill- net	17	-	-
Investment property- net	18	-	-
Property, plant and equipment- net	19	71.191.814	74.276.458
Intangible assets- net	20	330.864	341.588
Deferred tax assets	14	-	-
Other non-current assets	15	-	-
TOTAL ASSETS		**113.306.061**	**108.514.323**

* Refer to Note 2-d

The financial statements prepared as at and for the year ended 31 December 2005 and have been approved and signed by the Board of Directors on 8 March 2006.

	Notes	2005	Adjusted (*) 2004
LIABILITIES		**28.353.173**	**20.497.346**
CURRENT LIABILITIES		**21.654.002**	**14.995.314**
Financial obligations- net	6	3.048.997	1.976.024
Short-term portion of long-term financial obligations- net	6	8.831.809	6.201.386
Lease obligations- net	8	-	-
Other financial liabilities- net	10	908.737	-
Trade payables- net	7	7.505.991	5.410.693
Due to related parties- net	9	754.388	526.536
Advances received	21	139.259	528.763
Construction progress billing- net	13	-	-
Provisions	23	-	11.379
Deferred tax liabilities	14	-	-
Other current liabilities- net	15	464.821	340.533
NON-CURRENT LIABILITIES		**6.699.171**	**5.502.032**
Financial obligations- net	6	5.312.691	3.173.181
Lease obligations- net	8	-	-
Other financial liabilities- net	10	-	-
Trade payables- net	7	643.363	-
Due to related parties- net	9	-	-
Advances received	21	-	-
Provisions	23	623.729	509.903
Deferred tax liabilities	14	119.388	1.818.948
Other liabilities- net	10	-	-
MINORITY INTEREST	24	**-**	**-**
SHAREHOLDERS' EQUITY		**84.952.888**	**88. 016.977**
Share capital	25	**52.500.000**	**52.500.000**
Treasury share	25	**-**	**-**
Capital reserves	26-28	**33.120.711**	**33.120.711**
Share premiums		-	-
Profit from share cancellations		-	-
Revaluation fund		-	-
Revaluation fund for financial assets		-	-
Inflation adjustment to shareholders' equity		33.120.711	33.120.711
Profit reserves	26-28	**2.289.905**	**2.289.905**
Legal reserves		815.050	815.050
Statutory reserves		-	-
Extraordinary reserves		1.474.855	1.474.855
Special reserves		-	-
Property sales gains and investments shares to be added to capital		-	-
Cumulative translation adjustment		-	-
Net loss for the year		**(3.064.089)**	**-**
Retained earnings	26-28	**106.361**	**106.361**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**113.306.061**	**108.514.323**

Commitments and contingent assets and liabilities 31

* Refer Note 2-d

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

II-C.2. CONSOLIDATED INCOME TABLE ISSUED ACCORDING TO THE COMMUNIQUE OF SPK SERIAL: XI NO: 25

	Notes	1 January - 31 December 2005
OPERATING REVENUE		**60.622.204**
Net sales	36	60.622.204
Cost of sales	36	(58.346.282)
Service income- net	36	-
Other income	36	-
GROSS PROFIT		**2.275.922**
Operating expenses	37	(5.956.510)
NET OPERATING LOSS		**(3.680.588)**
Other income and profits	38	4.024.778
Other expenses and losses	38	(979.025)
Financial expenses	39	(4.128.814)
LOSS BEFORE MONETARY LOSS, TAXES AND MINORITY INTERESTS		**(4.763.649)**
Gain/(loss) on net monetary position	40	-
PROFIT/(LOSS) ATTRIBUTABLE TO MINORITY INTEREST	24	-
LOSS BEFORE TAX		**(4.763.649)**
Taxes on income	41	1.699.560
NET LOSS FOR THE YEAR		**(3.064.089)**
LOSS PER SHARE (YKr)	42	**(0,05836)**

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

II-C.3. EQUITY CHANGE TABLE ISSUED ACCORDING TO THE COMMUNIQUÉ OF SPK SERIAL: XI NO: 25

	Share capital	Inflation adjustment of shareholders' equity	Profit reserves	Net loss for the year	Retained earnings	Total equity
1 January 2005- as previously reported	**52.500.000**	**33.120.711**	**2.289.905**	**-**	**(1.590.481)**	**86.320.135**
Correction of error (Not 2-d)	-	-	-	-	1.696.842	1.696.842
1 January 2005- as restated	**52.500.000**	**33.120.711**	**2.289.905**	**-**	**106.361**	**88.016.977**
Net loss for the year	-	-	-	(3.064.089)	-	(3.064.089)
31 December 2005	**52.500.000**	**33.120.711**	**2.289.905**	**(3.064.089)**	**106.361**	**84.952.888**

The accompanying notes form an integral part of these financial statements

II-C.4. FOOTNOTES FORMING AN INTEGRATED PART OF OUR FINANCIAL TABLES ISSUED ACCORDING TO THE COMMUNIQUE OF SPK SERIAL: XI NO: 25

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

The nature of the operations of Alkim Kağıt Sanayi ve Ticaret A.Ş. (the "Company") is the manufacturing and sales of offset, glossy and photocopy papers. The main shareholder of the Company is Alkim Alkali Kimya A.Ş.(Note 25).

The number of people employed by the Company at 31 December 2005 is 226 (2004: 363).

The address of the registered office is as follows:

Akdeniz Caddesi No: 14/ 5,
35210 Pasaport-İzmir

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

a) Accounting Standards

The Company maintains its books of account and prepares its statutory financial statements in New Turkish lira (YTL) in accordance with the Turkish Commercial Code, communiqués issued by the Turkish Capital Market Board ("CMB") and Turkish tax legislation. These financial statements are based on the statutory records, which are maintained under the historical cost convention with adjustments and reclassifications for the purpose of fair presentation in accordance with CMB Communiqué XI/25 "Communiqué Regarding Accounting Standards in Capital Market" ("Communiqué") dated 15 November 2003. Financial statements and notes to financial statements are prepared in compliance with the formats required by the CMB announcement dated 20 December 2004.

The Communiqué came into effect for the first interim financial statements ending after 1 January 2005. The financial statements have been prepared in accordance with accounting and reporting principles published by the Capital Market Board ("CMB"), namely "CMB Accounting Standards". The CMB published a comprehensive set of accounting principles in Communiqué No: XI-25 "The Accounting Standards in the Capital Markets". In the aforementioned communiqué, companies are not required to prepare on a comparative basis, the first statements of income, of cash flows and of changes in shareholders' equity be prepared in accordance with the Communiqué. As the Company prepared its financial statements of income statement, changes in shareholders' equity statement, cash flow statement and the related notes that belong to the accounting period of 1 January-31 December 2005 according to the Communiqué for the first time, those accompanying financial statements and related notes have not been presented on a comparative basis with the preceding financial period

b) Financial reporting in hyperinflationary periods

Section 15 of the Communiqué, "Restatement of Financial Statements during Hyperinflation" requires that financial statements prepared in accordance with the generally accepted accounting standards issued by the CMB, that are prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous years be restated in the same terms. In accordance with the relevant Communiqué, hyperinflation period begins as of the current annual accounting period, in case the price index at the annual balance sheet date, exceeds by over 100% the price index at the beginning of the accounting period, three periods earlier, including the related accounting period, and if price index figure at the relevant balance sheet date has increased by 10% in comparison with that at the beginning of the accounting period.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

In its meeting numbered 11/367 on 17 March 2005, the CMB announced that according to the latest data by the Central Bank of Turkey, the inflation rate was estimated as 8% for the 2005 year-end, 7,7% for the following 12 months and 35,7% for the three years cumulative based on a 2005 year-end estimation. As a result of these estimations, the CMB declared that it was not required for companies operating in Turkey and preparing financial statements in accordance with generally accepted accounting principles issued by the CMB to restate for the effects of inflation for the periods beginning after 1 January 2005.

The indices, conversion factors used to restate the opening balance sheet dated 31 December 2004 and 3-years cumulative and annual inflation rates for last three years are as follows:

Dates	Index	Conversion Factor	Cumulative three year inflation	Annual inflation
31 December 2004	**8.403,8**	**1,000**	**69,7%**	**13,8%**
31 December 2003	7.382,1	1,138	181,1%	13,9%
31 December 2002	6.478,8	1,297	227,3%	30,8%

The main guidelines for the above mentioned restatement are as follows:

- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant monthly conversion factors. Additions to property, plant and equipment and intangible assets in the year of acquisition are restated by applying the relevant monthly conversion factors.

c) Group accounting

The financial statements include the accounts of the Company and its Associate, using the equity accounting method basis set out in the "Subsidiaries" section below. The financial statements of the Subsidiaries included in these financial statements in accordance with equity accounting method have been prepared as of the same date.

Investments in Associates

The investments in Associates are recognised using the equity method. These investments are the firms that the Company has a voting right of between 20% and 50% or exercises significant influence on their operations although no controlling power exists. The unrealised profits arising from the operations between the Company and its Associate are taken into account in line with the participation ratio of the Company. Similarly, the unrealised losses are taken into account if the transactions do not imply impairment loss on the transferred assets. As long as the Company has not undertaken any commitment or liability in the mentioned manner, the equity method is not applied following the decrease of investments in Associates down to zero or at the end of the Company's significant influence on the operations. The carrying value of the investments in the Associate as at the date of the end of significant influence is recognised at cost thereafter.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

The following table shows all the investments in associates and their participation rates as of 31 December:

	2005	Participation rate (%) 2004
Alkim Sigorta Aracılık Hiz. Ltd. Şti. ("Alkim Sigorta")	50	50

d) Comparatives and Restatement of Prior Year Financial Statements

As the Company prepared its financial statements of income statement, changes in shareholders' equity statement, cash flow statement and the related notes that belong to the accounting period of 1 January-31 December 2005 according to the Communiqué for first time, those accompanying financial statements and related notes have not been presented on a comparative basis with the preceding financial period.

As explained in Notes 14 and 19, in the current year, the Company has identified a mathematical error related to prior years in the determination of useful lives of certain tangible assets and deferred taxes. This error has been corrected by reflecting the effect of the correction on the prior year's financial statements. As a result of this correction, the net book value of the property, plant and equipment, deferred tax liability and retained earnings have increased by YTL1.978.369, YTL281.527 and YTL1696.842, respectively.

e) 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are summarised below:

i. Revenue recognition

Revenue comprises of the invoiced amount for the sale of goods and services (Note 36). Revenues are recognised on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company at the fair value of considerations received or receivable. The principal risks and rewards are transferred to the buyer when the goods are delivered or the legal title has been passed on.

Net sales represent the invoiced value of goods shipped less sales returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised as interest income on accrual basis (Note 36).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii. Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount for factory overheads and exclude borrowing costs. The cost of inventories is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 12).

iii. Property, plant and equipment

Property, plant and equipment acquired before 1 January 2005 are carried at cost in purchasing power of YTL as at 31 December 2004; less accumulated depreciation and impairment losses. Property, plant and equipment acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of assets concerned, are as follows (Note 19):

	Useful Life
Land improvements	8 - 50 years
Buildings	25 - 50 years
Leasehold improvements	5 years
Machinery and equipment	5 - 30 years
Motor vehicles	10 years
Furniture and fixtures	3 - 20 years

Land is not depreciated as it is deemed to have an indefinite life.

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of asset net selling price or value in use.

Gain or losses on disposals of property, plant and equipment with respect to their carrying value are included in the related income and expense accounts.

Repair and maintenance expenditures are charged to the income statement as they are incurred. Repair and maintenance expenditures are capitalised if they result in an enlargement or substantial improvement of the respective assets.

iv. Intangible assets

Intangible assets comprise of computer software programmes and development costs. Those acquired before 1 January 2005 are carried at cost in the purchasing power of YTL as at 31 December 2004; less accumulated depreciation and impairment losses. Those acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses and are depreciated using the straight-line method over 3-10 years following the acquisition date. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount (Note 20).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v. Impairment of assets

Property, plant and equipment and other non-current assets including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use.

Impairment loss on assets can be reversed to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

vi. Borrowing costs

Borrowings are recognised initially at the proceeds received, net of any transaction costs incurred. In subsequent periods, borrowings are restated at amortised cost using the effective yield method. Any proceeds and the redemption value are recognised in the statement of income over the period of the borrowings. Borrowing costs, if any, are not capitalised as part of qualifying assets, but expensed as incurred (Note 39).

vii. Financial instruments

None (2004: None).

viii. Business combinations

None (2004: None).

ix. Foreign currency transactions and balances

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into YTL at the exchange rates prevailing at the balance sheet dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of income.

x. Earnings per share

Earnings per share disclosed in the statement of income are determined by dividing net loss for the year by the weighted average number of shares that have been outstanding during the related year concerned (Note 42).

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

xi. Subsequent events

Subsequent events, announcements related to net profit or even declared after other selective financial information has been publicly announced, include all events that take place between the balance sheet date and the date when balance sheet was authorised for issue.

In the case that events require a correction to be made occur subsequent to the balance sheet date, the Company makes the necessary corrections to the financial statements.

xii. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

In cases where the time value of money is material, provisions are determined as the present value of expenses required to be made to honour the liability. The rate used to discount provisions to their present values is determined taking into account the interest rate in the related markets and the risk associated with the liability. This discount rate does not consider risks associated with future cash flow estimates.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are not included in financial tables and treated as contingent assets or liabilities.

xiii. Accounting policies, errors and changes in accounting estimates

Important changes in accounting policies and accounting errors are applied on a retrospective basis and reflected upon previous periods' financial statements. Changes in accounting estimates involving single periods are reflected upon the current period when the change occurs; changes involving future periods are reflected both upon the current period when the change occurs and the future period, on a prospective basis.

xiv. Leases

None (2004: None).

xv. Related parties

For the purpose of these financial statements, Company personnel, major shareholders, key management personnel and Board members, in each case together with their families and companies controlled by/affiliated with them are considered and referred to as related parties (Note 9).

xvi. Trade receivables and related impairment

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortised cost. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of impairment subsequently decreases due to on event occurring after the write-down, the release of the provision is credited to other income.

xvii. Segment reporting

As the Company operates only in Turkey and is engaged solely in the production and sales of offset, glossy and photocopy papers; financial information is not presented on segment basis.

xviii. Construction contracts

None (2004: None).

xix. Discontinued operations

None (2004: None).

xx. Government grants and incentives

None (2004: None).

xxi. Investment property

None (2004: None).

xxii. Taxes on income

Taxation on income includes current period tax liability and deferred taxes. Current period tax liability includes the taxes payable calculated on the taxable portion of period income with tax rates applicable on the balance sheet date and the correction adjustments related to prior period tax liabilities (Note 41).

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes with the enacted tax rates as of the balance sheet date (Note 14).

Deferred tax assets or liabilities are reflected to the financial statements to the extent that they will provide an increase or decrease in the taxes payable for the future periods where the temporary differences will reverse. Deferred tax liabilities are recognised for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. To the extent that deferred tax assets will not be utilised, the related amounts have been deducted accordingly.

xxiii. Provision for employment termination benefits

According to the enacted law, the Company is liable to make a lump sum payment to employees when employment is terminated for reasons other than retirement, resignation and others disclosed in the Labour Law. Provisions for employment termination benefits have been calculated for the net present value of future employment termination benefits and reflected in the financial statements (Note 23).

xxiv. Pension plans

None (2004: None).

xxv. Agricultural operations

None (2004: None).

xxvi. Statement of cash flows

In the statement of cash flows, cash flows are classified into three categories as operating, investment and financing activities (Note 43). Cash flows from operating activities are those resulting from the Company's production and sales of offset, glossy and photocopy paper. Cash flows from investment activities indicate cash inflows and outflows resulting from fixed and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand accounts, bank deposits, mutual funds and loans originated by the Company by providing money directly to a bank under reverse repurchase agreements with a predetermined sale price at fixed future dates of less than or equal to 3 months.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

xxvii. Financial instruments and financial risk management

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. A significant portion of the Company's receivables are from its dealers and related parties. The Company has established an effective control system over its dealer network and risks arising from transactions with dealers are followed by the management and the level of risk is limited for each customer.

Credit risk (Continued)

Sufficient amounts of guarantees obtained from the dealers are another method used by the Company for dealing with credit risk.

Funding risk

The ability to fund existing and prospective debt requirements is managed as necessary by obtaining adequate committed funding lines from high quality lenders.

Interest rate risk

The Company is exposed to interest rate risks through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

Foreign currency risk

The Company is exposed to foreign exchange risks through the impact of rate changes on translation into YTL of foreign currency denominated assets and liabilities. These risks are monitored and limited by analyses of the foreign currency position (Note 29).

xxviii. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practical to estimate fair value.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

xxix. Fair value of financial instruments (Continued)

Financial assets

The fair values of balances denominated in foreign currencies, which are translated to YTL using year-end exchange rates, are considered to approximate their carrying value. The fair values of certain financial assets carried at cost, including cash and amounts due from banks, receivables and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for impairment are estimated to be their fair values due to their short-term nature.

Financial liabilities

The fair values of monetary liabilities including short-term borrowings, trade payables and other financial liabilities are considered to approximate their respective carrying values due to their short-term nature.

NOTE 4 - CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	2.342	7.446
Banks	468.381	2.001.130
- Time deposits (YTL)	259.700	-
- Demand deposits (YTL)	136.577	129.016
- Demand deposits (Foreign currency)	72.104	1.080.240
- Time deposits (Foreign currency)	-	791.874
	470.723	**2.008.576**

Demand deposits' details by currency are as follows (in terms of YTL):

	2005	2004
YTL	136.577	129.016
USD	50.657	657.757
Euro	21.420	420.261
CHF	24	-
GBP	3	2.222
	208.681	**1.209.256**

Foreign currency time deposits' details are as follows (in terms of YTL):

	2005	2004
USD	-	791.874
	-	**791.874**

NOTE 5 – MARKETABLE SECURITIES

The details of the short-term securities classified by the Company in marketable securities, held for trading purposes, are as follows;

	2005	2004
B type investment fund	244.233	-
	244.233	**-**

NOTE 6 – FINANCIAL LIABILITIES

	2005		2004	
	Effective weighted average interest rate (%)	**YTL**	**Effective weighted average interest rate (%)**	**YTL**
Short-term financial obligations:				
Euro bank borrowings	2,66	3.042.053	4,15	545.398
YTL bank borrowings	0	6.944	0	65.137
USD bank borrowings	-	-	2,89	1.365.489
		3.048.997		**1.976.024**
Short-term portion of long-term financial obligations:				
USD bank borrowings	3,75	8.831.809	2,47	6.107.260
Euro bank borrowings	-	-	2,92	94.126
		8.831.809		**6.201.386**
Long-term financial obligations:				
USD bank borrowings	3,91	5.312.691	2,69	3.173.181
		5.312.691		**3.173.181**

The redemption schedule of principals of long-term financial obligations as of 31 December is as follows:

	2005	2004
2006	-	3.173.181
2007	5.312.691	-
	5.312.691	**3.173.181**

NOTE 7 – TRADE RECEIVABLES AND PAYABLES

	2005	2004
a) Short-term trade receivables:		
Cheques and notes receivable	10.974.617	5.335.984
Customer current accounts	5.157.662	6.884.975
Deposits and guarantees given	2.756	6.766
	16.135.035	**12.227.725**
Less: Unearned credit finance income	(244.379)	(361.328)
Provision for doubtful receivables	(78.350)	(6.670)
	15.812.306	**11.859.727**

At 31 December 2005, the effective weighted average interest rate for unearned credit finance income calculation is 13,96% per annum ("p.a.") for YTL receivables (2004:17,63% p.a.), 4,46% p.a. for USD receivables and 2,44% p.a. for EUR receivables (2004: None).

b) Short-term trade payables:		
Supplier current accounts	7.581.984	5.443.276
	7.581.984	**5.443.276**
Less: Unincurred credit finance expense	(75.993)	(32.583)
	7.505.991	**5.410.693**
c) Long-term trade payables:		
Supplier current accounts	696.188	-
	696.188	**-**
Less: Unincurred credit finance expense	(52.825)	-
	643.363	**-**

At 31 December 2005, the effective weighted average interest rate for unincurred credit finance expense calculation is 14,36% p.a. for YTL payables (2004:16,58% p.a.), 3,75% p.a. for USD payables and 2,46% p.a. for EUR payables (2004: None). Effective weighted average interest rate for unincurred credit finance expense calculation is 4,8% p.a. for long-term USD payables (2004: None).

NOTE 8 - LEASING RECEIVABLES AND OBLIGATIONS

None (2004: None).

NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Due from related parties and due to related parties' balances and transactions held with related parties during the current period are as follows:

	2005	2004
a) Due from related parties:		
Receivables from personnel	127.574	139.683
Alkim Alkali Kimya A.Ş. ("Alkim Kimya")	17.336	1.422
Sodaş Sodyum Sanayi A.Ş.	-	292
	144.910	**141.397**
b) Due to related parties:		
Payable to personnel	384.092	282.729
Alkim Sigorta	370.296	240.973
Alkim Kimya	-	2.825
Other	-	9
	754.388	**526.536**

	1 January - 31 December 2005
c) Service purchases:	
Alkim Sigorta	532.387
Alkim Kimya	86.632
	619.019
d) Service sales:	
Alkim Kimya	72.813
	72.813
e) Product sales:	
Ferit Kora	357
Sodaş Sodyum Sanayi A.Ş.	365
	722
f) Remuneration of key management personnel:	
Benefits provided to top management	714.505
	714.505

NOTE 10 - OTHER RECEIVABLES AND PAYABLES

	2005	2004
Other receivables:		
Value Added Tax Transferred ("VAT")	2.211.460	910.312
VAT receivable	45.276	196.408
Prepaid taxes and funds	919	101.929
	2.257.655	**1.208.649**
Other financial liabilities:		
Payables to factoring companies	908.737	-
	908.737	**-**

Factoring liabilities consists of receivables from customers which are transferred to factoring firms. These receivables are composed of EUR367.234 and USD242.772 and the average maturities and effective average annual commission rates for those receivables are 23 and 25 days and 3,35% and 5,04% respectively (2004: None).

NOTE 11 – BIOLOGICAL ASSETS

None (2004: None).

NOTE 12 – INVENTORIES

	2005	2004
Raw materials	4.505.027	4.349.294
Semi finished goods- net	5.229.393	4.164.148
Finished goods- net	4.343.041	3.193.422
Trade goods	37.314	42.120
Other inventories - net	1.408.580	4.239.181
Order advances given	6.643.961	2.194.705
	22.167.316	**18.182.870**

Other inventories include scrap paper obtained during the production process. These scrap papers are re-used in production and the Company has booked a provision of YTL505.000 for scrap paper inventory, a YTL25.000 provision for semi-finished goods and a YTL70.000 provision for finished goods, respectively.

NOTE 13 - BALANCES RELATED TO CONSTRUCTION CONTRACTS IN PROGRESS

None (2004: None).

NOTE 14 - DEFERRED TAX ASSETS AND LIABILITIES

Deferred Taxes:

The Company calculates deferred tax assets and liabilities based on temporary differences between the financials prepared in accordance with the CMB Communiqué No: XI-25 and financial statements prepared according to the Turkish tax legislation. Deferred income taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in coming years under the liability method using a principal tax rate of 30% (2004: 30%).

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 31 December 2005 and 31 December 2004 using the enacted future tax rates is as follows:

	Taxable temporary differences		Deferred tax assets/(liabilities)	
	2005	**2004**	**2005**	**Adjusted (*) 2004**
Restatement and useful life difference on property, plant and equipment and intangible assets	(11.974.848)	(9.492.243)	(3.592.455)	(2.847.673)
Tax losses carried forward	6.948.849	850.198	2.084.655	255.059
Unutilised investment incentives carried forward	2.620.012	2.050.479	682.780	521.133
Provision for employment termination benefits	623.729	509.903	187.119	152.971
Provision for impairment on inventories	600.000	-	180.000	-
Restatement difference on inventories	590.442	222.948	177.132	66.884
Provision for volume rebates	350.693	-	105.208	-
Unincurred credit finance expense- net	115.562	114.624	34.669	34.387
Other	71.680	(5.698)	21.504	(1.709)
Deferred tax assets			3.473.067	1.030.434
Deferred tax liabilities			(3.592.455)	(2.849.382)
Deferred tax liabilities- net			**(119.388)**	**(1.818.948)**

Movement for deferred tax is as follows:

1 January 2005- Adjusted (*)	**(1.818.948)**
Deferred tax income for the period (Note 41)	1.699.560
31 December 2005	(119.388)

(*) In the current year, the Company has identified a mathematical error related to prior years in the determination of useful lives of certain tangible assets and deferred taxes. This error has been corrected by reflecting the effect of the correction on the prior year's financial statements. As a result of those changes, deferred tax liabilities have increased by YTL 281.527 as of 1 January 2005.

NOTE 15 - OTHER CURRENT/NON-CURRENT ASSETS AND CURRENT/ NONCURRENT LIABILITIES

	2005	2004
a) Other Current Assets:		
Prepaid expenses	453.639	436.963
Accrual for due date income from customers	174.456	2.719
Other	34.294	41.892
	662.389	**481.574**
b) Other Current Liabilities:		
Taxes and funds payable	464.821	296.031
Other	-	44.502
	464.821	**340.533**

NOTE 16 - FINANCIAL ASSETS

The breakdown of financial assets at 31 December is as follows:

	2005			2004		
Associate:	**Nominal Value**	**Registered Value**	**Share**	**Nominal Value**	**Registered Value**	**Share**
Alkim Sigorta	10.000	23.851	50%	10.000	13.484	50%
	10.000	**23.851**		**10.000**	**13.484**	

Movement in Associates during the year is as follows:

1 January 2005	**13.484**
Share of results of Associates (Note 38)	10.367
31 December 2005	**23.851**

NOTE 17 – POSITIVE/NEGATIVE GOODWILL

None (2004: None).

NOTE 18 – INVESTMENT PROPERTY

None (2004: None).

NOTE 19 - PROPERTY, PLANT AND EQUIPMENT

	Adjusted (*) 1 January 2005	Additions	Disposals	Transfers (Note 20)	31 December 2005
Cost:					
Land	1.496.240	-	-	-	1.496.240
Land improvements	623.145	4.997	-	628.632	1.256.774
Buildings	9.540.103	-	-	40.242	9.580.345
Leasehold improvements	68.347	6.363	-	-	74.710
Machinery and equipment	78.989.581	600.170	(177.802)	965.239	80.377.188
Motor vehicles	1.255.408	141.007	(573.879)	-	822.536
Furniture and fixture	1.576.312	186.711	-	-	1.763.023
Construction in progress	1.141.035	1.166.605	-	(1.642.683)	664.957
	94.690.171	**2.105.853**	**(751.681)**	**(8.570)**	**96.035.773**
Less: Accumulated depreciation					
Land improvements	(52.411)	(17.781)	-	-	(70.192)
Buildings	(2.083.424)	(381.672)	-	-	(2.465.096)
Leasehold improvements	(49.449)	(10.873)	-	-	(60.322)
Machinery and equipment	(17.030.881)	(4.014.272)	17.031	-	(21.028.122)
Motor vehicles	(512.988)	(122.163)	304.806	-	(330.345)
Furniture and fixtures	(684.560)	(205.322)	-	-	(889.882)
	(20.413.713)	**(4.752.083)**	**321.837**	**-**	**(24.843.959)**
Net book value	**74.276.458**				**71.191.814**

YTL622.183 of the current year's depreciation charge has been allocated to inventories, YTL4.091.822 to cost of sales, YTL95.970 to general and administrative expenses and YTL18.113 to selling and marketing expenses.

There is first degree mortgage of YTL5.000.000 (2004: YTL5.000.000) on the Compnay's production plant in Kemalpaşa, settled on behalf of Türkiye İş Bankası ("Bank") due to the funds borrowed from the İzmir Branch (Note 31).

(*) The Company has restated its prior period financial statements in accordance with section 19 of the Communiqué in order to reflect the effect of the corrections made in the determination of certain tangible assets' useful lives. As a result of those corrections, the net book value of the property, plant and equipment, has increased by YTL1.978.369 as of 1 January 2005.

NOTE 20 – INTANGIBLE ASSETS

	1 January 2005	Additions	Disposals	Transfers (Note 19)	31 December 2005
Cost:					
Rights -Software	577.402	57.850	(1.753)	8.570	642.069
Less: Accumulated amortisation					
Rights - Software	(235.814)	(76.005)	614	-	(311.205)
Net book value	**341.588**				**330.864**

NOTE 21 – ADVANCES RECEIVED

	2005	2004
Short-term order advances received	139.259	528.763
	139.259	**528.763**

NOTE 22 – PENSION PLANS

There are no pension plans other than the provision for employment termination benefits explained in Note 23 Provisions for Costs and Expenses.

NOTE 23 - PROVISIONS

	2005	2004
a) Short-term provisions:		
Provision for invoices not received yet	-	8.359
Other	-	3.020
	-	**11.379**
b) Long-term provisions:		
Provision for employment termination benefits	623.729	509.903
	623.729	**509.903**

Provision for employment termination benefits has been calculated in accordance with the legal requirements as explained below.

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to the length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of YTL1.727,15 for each year of service as of 2005 (2004: YTL1.574,74).

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

The Communiqué requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

	2005	2004
Discount rate (%)	**5,45**	**5,49**
Turnover rate to estimate the probability of retirement (%)	**98,02**	**98,08**

NOTE 23 - PROVISIONS (Continued)

The principal assumption is that the 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. The maximum amount of YTL1.770,62 which is effective from 1 January 2006

(1 January 2005: YTL1.648,90) has been taken into consideration in calculating the provision for employment termination benefits of the Company.

Movements of the provision for employment termination benefits during the year are as follows:

1 January 2005	
Paid during the year	(146.128)
Increase during the year	259.954
31 December 2005	

YTL212.249 of the period expense of provision for employment termination benefits has been charged to cost of sales and YTL47.705 to general and administrative expenses (Note 37).

NOTE 24 – MINORITY INTEREST

None (2004: None).

NOTE 25 – SHARE CAPITAL/ TREASURY SHARES

At 31 December 2005 and 2004, the Company's capital held was as follows:

	2005		**2004**	
Shareholder	**Participation (%)**	**Amount YTL**	**Participation (%)**	**Amount YTL**
Alkim Kimya	**69,93**	**36.712.500**	69,93	36.712.500
Public quotation	**20,00**	**10.500.000**	20,00	10.500.000
Other	**10,07**	**5.287.500**	10,07	5.287.500
	100,00	**52.500.000**	100,00	52.500.000
Inflation adjustment of shareholders' equity (*)		**32.414.361**		32.414.361
Total equity		**84.914.361**		84.914.361

(*)Inflation adjustment of shareholders' equity represents the difference between nominal and inflation restated amounts of capital items in accordance with CMB Communiqué Serie XI, No: 20 "Communiqué on Principles of Restatement of Financial Statements In Periods of Hyperinflation". The Company's authorised and issued capital consists of 52.500.000 shares of 1 YTL each paid in full. (2004: 52.500.000.000). The Company is not subject to the registered capital system.

NOTE 26 - 27 - 28 CAPITAL RESERVES, PROFIT RESERVES, RETAINED EARNINGS

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

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

Quoted companies are subject to dividend requirements regulated by the CMB as follows:

Applicable from 1 January 2004, net income computed in accordance with Communiqué XI/25 must be distributed in the ratio of a minimum of 30% of total distributable profit. Based on the decision of the General Assembly, the distribution of a minimum of 30% of the distributable profit can be made as cash or as bonus shares or as a combination of a certain percentage of cash and bonus shares.

In accordance with the Communiqué Section 15 paragraph 399, the accumulated deficit amounts arising from the first application of inflation adjustment, in line with the CMB's profit distribution regulations, are considered to be deductive when computing the distributable profit. The accumulated losses will first be netted-off from net income and retained earnings, and the remaining deficit from extraordinary reserves, legal reserves and shareholders' equity restatement difference.

Restatement difference of shareholders' equity can only be netted-off against prior years' losses and used as an internal source in capital increase where extraordinary reserves can be netted-off against prior years' losses, and used in the distribution of bonus shares and distributions of dividends to shareholders.

In accordance with the above explanation, the composition of the Company's shareholders' equity as of 31 December 2005 and 2004, which is considered as the basis for profit distribution is as follows:

	31 December 2005		
	Nominal Values	**Restated Values**	**Inflation Restatement Differences**
Share capital	52.500.000	84.914.361	32.414.361
Legal reserves	815.050	1.090.481	275.431
Extraordinary reserves	1.474.855	1.905.774	430.919
	54.789.905	**87.910.616**	**33.120.711**

(Amounts expressed in New Turkish Lira (YTL) unless otherwise indicated).

NOTE 29 – FOREIGN CURRENCY POSITION

The table below summarises the Company's exposure to foreign currency position risk as of periods ending 31 December. The carrying amounts of the Company's assets and liabilities denominated in foreign currencies are as follows, categorised by currency:

31 December 2005:

	USD Original currency	YTL	EUR Original currency	YTL	GBP Original currency	YTL	Other YTL	Total YTL
Assets:								
Cash	-	-	4	6	-	-	-	6
Banks	37.753	50.657	13.493	21.420	1	3	24	72.104
Trade receivables	841.749	1.129.459	1.690.629	2.683.873	-	-	-	3.813.332
Due from related parties		-	14.894	23.644	-	-	-	23.644
Inventories	4.737.276	6.425.506	88.767	142.099	16.612	41.235	-	6.608.840
	5.616.778	**7.605.622**	**1.807.787**	**2.871.042**	**16.613**	**41.238**	**24**	**10.517.926**
Liabilities:								
Short-term financial liabilities	-	-	1.916.254	3.042.053	-	-	-	3.042.053
Short-term portion of long-term financial liabilities	6.582.061	8.831.809	-	-	-	-	-	8.831.809
Trade payables	4.163.886	5.587.103	281.317	446.591	5.075	11.734	15.440	6.060.868
Order advances received	14.929	20.032	14.450	22.939	-	-	-	42.971
Long-term financial liabilities	3.959.376	5.312.691	-	-	-	-	-	5.312.691
Other liabilities	242.772	325.752	367.234	582.985	-	-	-	908.737
	14.963.024	**20.077.387**	**2.579.255**	**4.094.568**	**5.075**	**11.734**	**15.440**	**24.199.129**
Net foreign currency liability position	**(9.346.246)**	**(12.471.765)**	**(771.468)**	**(1.223.526)**	**(11.538)**	**(29.504)**	**(15.416)**	**(13.681.203)**

(Amounts expressed in New Turkish Lira (YTL) unless otherwise indicated).

NOTE 29 – FOREIGN CURRENCY POSITION (Continued)

31 December 2004:

	USD Original Currency	YTL	EUR Original Currency	YTL	GBP Original Currency	YTL	Other YTL	Total YTL
Assets:								
Cash	21	28	3	6	-	-	-	34
Banks	1.080.122	1.449.631	230.053	420.261	862	2.222	-	1.872.114
Trade receivables	792.581	1.063.723	1.914.820	3.497.992	-	-	-	4.561.715
Inventories	1.140.782	1.559.722	209.619	398.294	35.400	92.157	-	2.050.173
	3.013.506	**4.073.104**	**2.354.495**	**4.316.553**	**36.262**	**94.379**	**-**	**8.484.036**
Liabilities:								
Short-term financial liabilities	1.012.523	1.365.489	297.122	545.398	-	-	-	1.910.887
Short-term portion of long-term financial liabilities	4.528.592	6.107.260	51.278	94.126	-	-	-	6.201.386
Trade payables	2.225.876	3.001.817	432.984	794.785	43.266	112.059	402	3.909.063
Due to related parties	175.296	236.404	-	-	-	-	-	236.404
Long-term financial liabilities	2.352.945	3.173.181	-	-	-	-	-	3.173.181
	10.295.232	**13.884.151**	**781.384**	**1.434.309**	**43.266**	**112.059**	**402**	**15.430.921**
Net foreign currency liability position	**(7.281.726)**	**(9.811.047)**	**1.573.111**	**2.882.244**	**(7.004)**	**(17.680)**	**(402)**	**(6.946.885)**

NOTE 30 - GOVERNMENT GRANTS

None (2004: None).

NOTE 31 – PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

	2005	2004
Guarantees received:		
Guarantee letters received	4.143.970	3.404.940
Guarantee cheques received	375.704	1.056.586
Guarantee notes received	10.000	103.602
	4.529.674	**4.565.128**
Guarantees given:		
Guarantee letters given	5.201.466	4.845.305
Mortgages given	5.000.000	5.000.000
	10.201.466	**9.845.305**

NOTE 32 – BUSINESS COMBINATIONS

None (2004: None).

NOTE 33 – SEGMENT REPORTING

None (2004: None).

NOTE 34 – SUBSEQUENT EVENTS

None.

NOTE 35 – DISCONTINUED OPERATIONS

None (2004: None).

NOTE 36 – OPERATING INCOME

	1 January- 31 December 2005
Domestic sales	45.567.549
Export sales	16.404.197
	61.971.746
Less: Returns	(558.615)
Discounts	(790.927)
Net Sales	**60.622.204**
Cost of sales	(58.346.282)
Gross Profit from Operations	**2.275.922**

NOTE 37 – OPERATING EXPENSES

	1 January- 31 December 2005
Research and Development Expenses:	
Personnel	(75.317)
Other	(13.982)
	(89.299)
Selling and Distribution Expenses:	
Transportation	(1.251.014)
Personnel	(810.993)
Commission expenses	(362.651)
Advertisement	(329.005)
Rent	(205.750)
Other	(471.393)
	(3.430.806)
General Administrative Expenses:	
Personnel	(1.386.350)
Taxes and funds	(246.416)
Rent	(148.669)
Consultancy	(142.935)
Depreciation and amortisation	(95.970)
Employment termination benefits	(47.705)
Other	(368.360)
	(2.436.405)
Total operating expenses	**(5.956.510)**

NOTE 38 - OTHER INCOME AND EXPENSES

	1 January- 31 December2005
Other income:	
Foreign exchange gain	2.921.477
Unincurred credit finance expense- net	490.146
Due date income	300.147
Income from insurance companies	149.001
Scrap sales income	92.118
Interest income	19.373
Share of results of associates	10.367
Other	42.149
	4.024.778
Other expenses:	
Provision for impairment of inventories	(600.000)
Property, plant and equipment sales loss	(301.597)
Provision for doubtful receivables	(71.680)
Other	(5.748)
	(979.025)
Other operating income– net	**3.045.753**

NOTE 39 – FINANCIAL EXPENSES

	1 January- 31 December 2005
Foreign exchange loss	(2.790.394)
Interest expenses	(686.113)
Bank commission expenses	(375.345)
Unearned credit finance income-net	(276.962)
	(4.128.814)

NOTE 40 - GAIN/ (LOSS) ON NET MONETARY POSITION

None.

NOTE 41 – TAXES ON INCOME

Corporation tax is payable at a rate of 30% for 2005 (2004: 33%) on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

The Company prepared the opening balance sheet as of 1 January 2004 in accordance with the law numbered 5024. The Company calculated the tax provision amount in accordance with the procedures and basis stated in the laws numbered 5024 and 5028 as of 31 December 2004. Due to the non-existence of the inflation restatement conditions set out in Law No.5024 in 2005, the Company has not applied inflation restatement during the calculation of the tax provision as at 31 December 2005.

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

Capital expenditures incurred after 24 April 2003 over YTL6.000 (YTL6.000 for 2004 and YTL10.000 for 2005) are eligible for an investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment incentives are transferred to the next year if net income is insufficient. Investment allowances utilised within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8% (2004: 19,8%), irrespective of profit distribution.

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

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

Taxes on income for the periods ended 31 December 2005 are summarised as follows:

	31 December 2005
- Corporation and income taxes currently payable	-
- Deferred tax income (Note 14)	1.699.560
Taxes on income	**1.699.560**

NOTE 41 – TAXES ON INCOME (Continued)

Reconciliation of the current year's taxation on income is as follows:

	31 December 2005
Loss before tax (CMB Accounting Standards)	(4.763.649)
Effect of adjustments	(1.475.569)
Loss before tax - statutory	(6.239.218)
Deductions	(455.935)
Non-deductible expenses	596.503
Corporate tax base	-
Tax expense calculated over corporate tax rate	-
Deferred tax income (Note 14)	1.699.560
Taxes on income	**1.699.560**

NOTE 42 - LOSS PER SHARE

As for the period ended 31 December 2005, a YKr0,05836 net loss has been recorded per share with a YTL1 nominal value. As of the date of preparation of these financial statements, the Board of Directors of the Company has not completed the proposal for the profit distribution to be presented to the General Assembly.

In order for profit distribution, a reserve over the statutory records is allocated in accordance with the provisions of TCC, the total amount that will be distributed over the net distributable profit calculated over the financial statements prepared in accordance with the Communiqué is first distributed over statutory net distributable profit if that covers the amount, if statutory net distributable profit does not cover the amount, the total net distributable amount in statutory records is distributed.

Net loss per share:

		1 January – 31 December 2005
Net loss for the period	A	(3.064.089)
Number of shares with face value of 1 YTL each	B	52.500.000
Loss per share (YTL)	A/B	(0,05836)

NOTE 43 - STATEMENT OF CASH FLOWS

	Notes	1 January - 31 December 2005
Cash flows from operating activities:		
Net loss before taxation on income		(4.763.649)
Adjustments to reconcile net loss before taxation on income to net cash used in operating activities		
Depreciation and amortisation	19-20	4.828.088
Employment termination benefits paid	23	113.826
Interest income	38	(19.373)
Share from results of associates	38	(10.367)
Loss from sales of property, plant and equipment	38	301.597
Change in short-term provisions	23	(11.379)
Interest expense	39	686.113
Net cash before changes in assets and liabilities		**1.124.856**
Changes in assets and liabilities:		
Change in short-term trade receivables	7	(3.952.579)
Change in due from related parties	9	(3.513)
Change in inventories	12	(3.984.446)
Change in other receivables	10	(1.049.006)
Change in other current assets	15	(180.815)
Change in short-term trade payables	7	2.095.298
Change in long-term trade payables	7	643.363
Change in due to related parties	9	227.852
Change in advances received	21	(389.504)
Changes in other short-term liabilities	15	124.288
Net cash flows used in operating activities		**(5.344.206)**
Cash flows from investing activities:		
Interest received		19.473
Purchases of property, plant and equipment and intangible assets	19-20	(2.163.703)
Revenue from sales of property, plant and equipment and intangible assets		128.247
Net cash used in investing activities		**(2.015.983)**
Cash flows from financing activities:		
Change in financial liabilities	6-10	6.751.643
Interest paid		(685.074)
Net cash used in financing activities		**6.066.569**
Net decrease in cash and cash equivalents		(1.293.620)
Cash and cash equivalents at beginning of the year	4-5	**2.008.576**
Cash and cash equivalents at end of the year	4-5	**714.956**

NOTE 44 - OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR PREVENT THE CLEAR UNDERSTANDING OF THE FINANCIAL STATEMENTS

None.

NOTE 45 – EXPLANATION ADDED FOR CONVENIENCE TRANSLATION INTO ENGLISH

As of 31December 2005, the accounting principles described in Note 2 (defined as 'CMB Accounting Standards') to the financial statements differ from International Financial Reporting Standards (''IFRS'') issued by the International Accounting Standards Board with respect to the application of inflation accounting and presentation of the basic financial statements and the notes to them. Accordingly, the financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

....

2.D RATIOS OF THE OPERATING PERIOD

The basic ratios determining the structure of assets and liabilities of the company and those indicating the financial status, profitability and loan paying position are presented in the following tables in Million/ TL in comparison with the previous period.

1. ASSETS

				2005				2004			
1.1	Current Assets	/	Assets	41,759,532	/	113,306,061	36.9%	33,882,793	/	108,514,323	31.2%
1.1.1	Stocks	/	Current Assets	22,167,316	/	41,759,532	53.1%	18,182,870	/	33,882,793	53.7%
1.1.2	Receviables	/	Current Assets	15,812,306	/	41,759,532	37.9%	11,859,727	/	33,882,793	35.0%
1.2	Fixed Assets	/	Assets	71,546,529	/	113,306,061	63.1%	74,631,530	/	108,514,323	68.8%
1.2.1	Net fixed Assets	/	Current Assets	71,522,678	/	41,759,532	171.3%	74,618,046	/	33,882,793	220.2%

2.LIABILITIES

				2005				2004			
2.1	Shareholders'equity	/	Liabilties and equity	84,952,888	/	113,306,061	75.0%	88,016,977	/	108,514,323	81.1%
2.2	Short- term liabilties of funds	/	Liabilties and equity	21,654,002	/	113,306,061	19.1%	14,995,314	/	108,514,323	13.8%
2.3	Long- term liabilties of funds	/	Liabilties and equity	6,699,171	/	113,306,061	5.9%	5,502,032	/	108,514,323	5.1%
2.4	Profit for the period	/	Liabilties and equity	0	/	113,306,061	0.0%	106,361	/	108,514,323	0.1%
2.5	Net profit for the year	/	Liabilties and equity	0	/	113,306,061	0.0%	106,361	/	108,514,323	0.1%

3.ASSETS AND LIABILITIES

				2005				2004			
3.1	Short-terms liabilties of funds	/	current assets	21,654,002	/	41,759,532	51.9%	14,995,314	/	33,882,793	44.3%
3.2	Fixed assets	/	shareholders' equity	41,759,532	/	84,952,888	49.2%	33,882,793	/	88,016,977	38.5%

4.RATIOS OF PAYING LIABILITIES

The ratios of the Corporation's paying liabilities are as foloows:

		2005		2004	
Current assets / **Short-term liablities**	=	**41.759.532** / **21.654.002**	= **1,93**	**33.882.793** / **14.995.314**	= **2,26**
Buyers +Other receviables / **Short-term liablities**	=	**18.069.961** / **21.654.002**	= **0,83**	**13.068.376** / **14.995.314**	= **0,87**

5. RATIOS OF INCOME STATEMENT

Basic rational relations are provided in YTL by using the income statement.

			2005			
Costs of sales	/	Net sales	58,346,282	/	60,622,204	96.2%
Marketing&sales expenses	/	Net sales	3,430,806	/	60,622,204	5.7%
Gen.administ.expenses	/	Net sales	2,436,405	/	60,622,204	4.0%
Net profit for the year	/	Net sales	0	/	60,622,204	0.0%

2.E ADMINISTRATIVE OPERATIONS

2.E.1 Top managers:

TITLE	NAME AND SURNAME
General Manager	: Nihat Erkan
Ass. General Manager	: Yİlmaz Kaya Aylanç
Factory Manager	: M.Tekin Salt
Ass.Factory Manager	: Ersin Cebesi
Ass.Factory Manager	: Timur Toplu

2.E.2 Status of Personnel and Severance Pay

Average number of our personnel per month as of 2005 is 226.
23 personnel gave up working due to various reasons (death, military obligation, retirement, marriage etc) and recruitments were made. The distribution of the personnel to the working points as of the end of the year is as follows:

Average number of our personnel working in the year per category:

	31 December 2005 Person		31 December 2004 Person	
Total employees at the beginning of the period		**228**		**226**
White collar (not a trade union member)	**40**		**39**	
Blue collar (not a trade union member)	**188**		**187**	
Total employees at the end of the period		**226**		**228**
White collar (not a trade union member)	**39**		**40**	
Blue collar (not a trade union member)	**187**		**188**	

2.E.3 Our company does not execute a Collective Labor Agreement

2.E.4 As of the end of 2005, provision for employment termination benefits of YTL 623.729 has been allocated.

2.E.5 Rights and benefits to the personnel

The working personnel is entitled to monthly salaries as well as traveling and food grants and children and family grants.

III- PROFIT DISTRIBUTION PROPOSAL AND CONCLUSION

As there is not company profit for 2005, no profit distribution to be performed.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS TOGETHER WITH AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

ALKİM KAĞIT SANAYİ VE TİCARET A.Ş.

AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

1. We have audited the accompanying balance sheet of Alkim Kağıt Sanayi ve Ticaret A.Ş. (the Company) at 31 December 2005 and the related statement of income for the year then ended. Our examination was made in accordance with generally accepted auditing principles issued by the Turkish Capital Market Board ("CMB") and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary under the circumstances.

2. In our opinion, the financial statements present fairly, in all material respects, the financial position of Alkim Kağıt Sanayi ve Ticaret A.Ş. as at 31 December 2005 and the results of its operations for the year then ended in accordance with generally accepted accounting principles issued by the CMB (Note 2).

3. Without qualifying our opinion, we would like to draw your attention to the following matter:

   As disclosed in Note 2, the financial statements have been prepared in accordance with accounting and reporting principles published by the Capital Market Board ("CMB"), namely "CMB Accounting Standards". The CMB published a comprehensive set of accounting principles in Communiqué No: XI-25 "The Accounting Standards in the Capital Markets". In the aforementioned communiqué, companies are not required to prepare on a comparative basis, the first statements of income, of cash flows and of changes in shareholders' equity be prepared in accordance with the Communiqué. As the Company prepared its financial statements of income statement, changes in shareholders' equity statement, cash flow statement and the related notes that belong to the accounting period of 1 January-31 December 2005 according to the Communiqué for the first time, those accompanying financial statements and related notes have not been presented on a comparative basis with the preceding financial period.

4. Additional paragraph for convenience translation into English:

   As of 31December 2005, the accounting principles described in Note 2 (defined as 'CMB Accounting Standards') to the accompanying financial statements differ from International Financial Reporting Standards (''IFRS'') issued by the International Accounting Standards Board with respect to the application of inflation accounting and presentation of the basic financial statements and the notes to them. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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

ORIGINAL COPY ISSUED AND SIGNED IN TURKISH
Murat Sancar, SMMM
Partner
Istanbul, 8 March 2006

M.YÜKSEL KADIOĞLU
Yeminli Mali Müşavir
Ortaklar Cad. Bilal Apt. No:49 Kat 1 Daire 5
80290 Mecidiyeköy – İSTANBUL
Tel. : (0212) 216 28 30 (Pbx)
Fax: (0212) 216 28 31

(Aşağıdaki kısım Türkçe'de yok)

ALKİM KAĞIT SANAYİ VE TİCARET A.Ş.
INDEPENDENT AUDITORS REPORT

Audited Company's

Corporate Name	:	Alkim Kağıt Sanayi ve Ticaret A.Ş.
Headquarter	:	Akdeniz Cad. No:14/5 Alsancak / İZMİR
Capital	:	52.500.000.000.000.-TL (52.500.000 YTL)
Nature of Activities	:	First quality print on coated paper.
Name of the Auditor and Term of Office, weather a partner or a staff	:	M.Yüksel KADIOĞLU (for 1 year) is not a partner or a staff.
Number of Board of Directors' meetings contributed	:	Contributed to the Board of Directors' meeting two times.
Scope of the audit on Partners Accounts, Books and Documents, Date of the Audit and the Conclusion	:	In accordance with Tax Legislations and Turkish Commercial Code, revision is made for the end of the 3, 6, 9 and 12. months and there are no matters to criticize.
In accordance with Turkish Commercial Code Article No.353 1st Paragraph 3rd clause, number of cash counts made and the results	:	Company's cash counted 5 times and the amounts matches to the company records.
Audit dates and results in accordance with Turkish Commercial Code Article No.353 1st Paragraph 4th clause	:	In audits made by the last day of each month, current letter of guarantees and securities' congruencies to the records tested.
Complainants and corruptions perceived and procedures	:	No complainants perceived.

We have audited the accounts and transactions of ALKİM KAĞIT SANAYI VE TİCARET A.Ş. for the period January 01, 2005-December 31, 2005 in accordance with Turkish Commercial Code, main agreement of the partnership, Generally Accepted Principles of Accounting and other legislations.

Balance Sheet referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and the Income Statement for the period January 01, 2005 –December 31,2005 present the results of its operations.

Commercial loss of the company for the period January 01, 2005 – December 31, 2005 is 6.239.218,00 YTL, as can be seen in the enclosed Balance Sheet and Income Statements.

We request the confirmation of the Balance Sheet and Income Statements and acquittal of Board of Directors to be voted in the General Board of Directors.

Auditor
M.Yüksel KADIOĞLU

CORPORATE MANAGEMENT ADAPTATION REPORT

1. DECLARATION TO APPLY THE CORPORATE MANAGEMENT PRINCIPLES

Our Company applies the corporate management principles announced by the Capital Market Board, in the period ending on 31 December 2005.

PART I - SHAREHOLDERS

2. Shareholder relations unit

A shareholders department has been formed within our Company. Mustafa Güresti, Burhanettin İpek have been given the duties as responsible managers and Murat Balpinar is the personnel in the department. There has been no application by the shareholders and for that reason there has been no situation in need of answer.

3. Information Acquiring Rights of the Shareholders

Our company has not received an application by the shareholders in written aiming to use the information acquiring right. Our new designed portal has been used for this aim. Our articles of association does not include an article regarding the atama of a private auditor.

4. Info about General Assembly

Announcements in relation to the Ordinary General Assembly Meeting held on 24.03.2005 have been published on Posta and Radikal newspapers dated 08.03.2005. Extraordinary General Assembly Meeting and Privileged Shareholders Extraordinary General Assembly Meeting in 2005 was not held. All the relevant documents of the agenda, annual report, financial tables, profit distribution suggestion, agenda of the General Assembly Meeting, are presented to all the shareholders who wish to have. The questions of the shareholders are answered one by one, applying the equality principle. The result of the meeting is presented to Istanbul Stock Exchange and published at the web site. Shareholders have a right to vote on behalf of others. Every decision regarding the amendment of articles of association is reached at the general Assembly meeting. No time limit has been proposed to register to the share book so that registered to name shareholders will attend the meeting. Articles of association does not include an article in relation to important decisions to be taken at the General Assembly, such as diversification, huge amount asset selling, purchasing, renting.

5. Voting Rights and Minority Rights

In the meetings of General Assembly the shareholders of group A, B, C, D and E have 100 voting rights for each share, the shareholders of group F have 1 voting right for each share. Alkim Alkali Kimya A.Ş. has voted at the meeting. Minority rights have not been represented at the management.

6. Profit Distribution Policy and Profit Distribution Term

There is no privilege on the profit distribution. Our profit distribution policy is as stated in our articles of association, general expenses, compulsory accruals are deducted from the revenues of the year-end, and net profit stated at the balance sheet is distributed as follows, after offsetting from the previous year loss if any.

FIRST ALLOTMENT LEGAL RESERVE

a) 5% legal reserve is allocated.

First Dividend

b) From the residual, first dividend is allocated at the rate and amount stated by Capital Market Board.

From the residual, with the condition of not affecting the first dividend, an amount up to 3% of net profit is distributed to Board Members after the decision of General Assembly. That amount can not be more than 10% of the paid-in capital.

Second Dividend

c) General assembly is authorized to distribute the residual amount from articles a and b, totally or partially as second dividend or allocate as extraordinary reserve.

SECOND ALLOTMENT LEGAL RESERVE

d) One tenth of the amount found after the deduction of 5% profit share of the paid-in capital from the decided profit distribution is allocated as second allotment legal reserve in accordance with the part 3, item 2 of article 466 of Turkish Commercial Code.
e) No decision may be taken to allocate other reserves, carry forward the profit, distribute profit to Board Members, employees, workers, privileged shareholders, institutions and foundations found for different aims, unless legal reserves and first dividend is allocated.

This policy is presented to shareholders in the general assembly meeting. No profit distribution has been realized in 2004 but profit distribution is possible till the 5^{th} month of the following year.

7. Transfer of Shares
Our articles of association includes the following articles in relation of the transfer and sale of shares

a) Transfer and sale of registered to name shares
Shareholder who want to sell all or any of the registered shares have to offer the shares firstly to other registered share owners. While using the option, shareholder will notify the company about the share he will sell, the amount offered to himself, the identification and address of the buyer nominee by a notary public announcement. The Company will at once deliver this sale demand to the partners by registered letter. If this letter is not received by the partners by any reason, the sale option is announced at a daily newspaper published around where the Company is located.
A partner who does not announce his wish to use purchasing option within 15 days of the delivery of the registered letter and within 7 days of the publishment and who does not block the necessary money to the Company within the same time limits will be presumed that he does not want to buy the shares. In any case, if the purchasing option is not used within 30 days after the notary public announcement, the partner has the right to sell the shares to nominee buyer freely. The sale of the shares either to existing partners or to nominee is realized by registration to share book.

b) Transfer of the registered shares to relatives and legal transfers

Partners may sell or transfer all or any of his shares to his wife, children, sisters and brothers by only registering to the share book. Legal rules apply in the case of inheritance.
Sale of bearer owned shares are subject to Turkish Commercial Code and Capital Market Law.
Rules of article 416 of Turkish Commercial Code are preserved.

PART II INFORMING THE PUBLIC AND TRANSPARENCY

8. Company informing Policy

The informing policy of the company is to explain the necessary matters in relation to its operations on time in the special condition explanation format. Also, shareholders department has been formed to inform the public and answer the questions to the Company. Responsible people of execution of informing policy are Nihat Erkan, General Manager, and shareholders department.

9. Special Condition Explanations

Company has made 9 special condition explanations within this period. Capital Market Board and Stock Exchange have not demanded additional explanations. All these explanations have been made on time. Our shares are not marketed in the foreign markets. No sanction has been applied to our Company by CMB because of not making the special condition explanations on time.

10. Company web site and its content

The Company has a web site which was renewed lately. Address of our web site is www.alkimkagit.com.tr. Corporate Management Principles have a special page at the site.

11. Explanation for ultimate owners as real person

Last shareowners are as follows after the exclusion of Alkim Alkali Kimya A.Ş. (31.12.2005)

Offered to public	35,69%	18.737.687,35
H.Arkın KORA	18,72%	9.828.165,78
Cihat KORA	10,41%	5.466.609,38
ISE Settlement And Custudy Bank Inc.	10,00%	5.250.000,00
M.Reha KORA	8,22%	4.316.531,25
A.Haluk KORA	6,86%	3.603.450,00
Ferit KORA	3,24%	1.703.462,57
Özay KORA	2,98%	1.562.531,25
Tülay ÖNEL	2,97%	1.561.406,25
E.Şukran TUTAŞ	0,57%	299.027,65
Gülen KORA	0,27%	140.368,82
Mithat KORA	0,05%	26.079,40
Z.Ayşegül KORA	0,01%	2.812,50
Kadri ÖNEL	0,00%	1.125,00
Nihat ERKAN	0,00%	742,79
	100,00%	**52.500.000,00**

12. Informing the public about the possible insiding traders

Our Company has taken necessary precautions to obey the legal adjusments for insiding traders.

PART III BENEFIT OWNERS

13. Informing the benefit owners

Our company informs the benefit owners in accordance with the article 8 of Company informing policy and uses web site, stock exchange and public informing platform for that aim. The benefit owners have not directly or indirectly applied to our Company in order to be informed.

14. Participation of benefit owners to management

Our Company has not applied a rule about the participation of benefit owners to management apart from the ones stated in the shareholders agreement.

15. Human Resources Policy

Our human resources policy sees our employees as the most valuable resource of our Company. Selection, recruitment and education in order to obtain the continous performance at the top level is an important part of this policy. Relations with the personnel are kept with Administration and Personnel Managers apart from their first seniors. In case they need they can also communicate with the General Manager. No complaint has been received from the employees about discrimination. Personnel manager is Burhanettin İpek.

16. Info about the relations with the customers and suppliers

Our Company has adopted a policy of customer satisfaction at marketing and sale of goods and services. The customer relations department with adequate personnel and equipment has reached a performance to give the pre-answers to customer complaints within 24 hours. The complaints are delivered to the factory with the notebooks and digital cameras of all personnel and the matter is analyzed by the experts. The most detailed answer is given to the customer by taking all the records of the product in question. In addition to these sale personnel are educated often.

17. Social Responsibility

Our Company creates valuable contributions to the district iti is present in on the education and employment issues. Our Company support school building and activities of the students with that aim. As another social activity, the organizations working for public benefit are suported and contributed by being sponsor. Great importance is given to environmental factors and no critique has been received after the controls made. Treatment facility has been rewarded many times.

PART IV – BOARD OF DIRECTORS

18. The structure and organization of Board of Directors and independent members

The executive members of our Board of Directors are Nihat Erkan and Ferit Kora. Members of board of directors are as follows:

Chairman of the Board of Directors	NİHAT ERKAN
Vice Chairman of the Board of Directors	FERİT KORA
Member of the Board of Directors	ÖZAY KORA
Member of the Board of Directors	MİTHAT KORA
Member of the Board of Directors	KADRİ ÖNEL
Member of the Board of Directors	İSMAİL ALTILAR

General Manager of our Company is NİHAT ERKAN

No restriction is applied to the members to obtain duties outside the Company.

19. The characteristics of the members of Board of Directors

The minimum charateristics required at the election of members are in accordance with the CMB Corporate Management Principles. This is not stated at the terms of association.

20. Vision, mission and strategic goals of the Company

Our Board of Directors has stated mission and vision of our Company and announced to public by different means.

Mission and vision of our Company

1- To reach the world's best quality in its sector
2- To reach the best quality with the most economic conditions
3- To keep and increase the export potential achieved in Europe and other foreign countries.
4- To keep the productivity at the top level
5- To execute the team and group working at the top level
6- To keep the motivation of our employees at the top level and to improve their life standards.

Strategic goals are stated by the managers, approved and quarterly audited by the Board od Directors.

21. Risk management and internal control mechanism

Necessary principles have been stated by the board of directors and relevant professionals have been determined. Follow-up of this issue will be made by two members of the Board of Directors and general manager.

22. The authority and responsibilities of the members of Board of Directors

The authority and responsibilities of the members of Board of Directors and managers are stated by the Board of Directors decision in accordance with the article 8 of articles of association. According to this:

Chairman of the Board of Directors	NİHAT ERKAN	(General Director in the status of managing director, Top Level Administrative, goods and commercial issues
Vice Chairman of the Board of Dir.	FERİT KORA	(Assisting authority to Chairman of the Board of Directors)
Member of the Board of Directors	ÖZAY KORA	(Sales, marketing and PR)
Member of the Board of Directors	MİTHAT KORA	(Legal issues, general adm.)
Member of the Board of Directors	KADRİ ÖNEL	(Sales, marketing and PR)
Member of the Board of Directors	İSMAİL ALTILAR	(Paper facility, technical issues)

23. Operating basis of Board of Directors

19 meetings were held in 2005. Actual presence majorities have been achieved. Decisions are given by plurality. No last rejection right has been privileged.

24. Operating and rivalry prohibition with the company

Board of Directors have been authorized by the General Assembly to operate pursuant to articles 334 and 335 of Turkish Commercial Code.

25. Ethic Rules

Our Company adopts the principles rooted to a 50 years business life of our group. Except the understanding of everything may be done in order to achieve success, accepts the way to success as a route where all human values and generally accepted ethic rules are taken into account and acts accordingly.

26. Number, structure and independence of the committees formed at the Board of Directors

Committee responsible from the audit of our Company has been formed within the legal time limits and acts in accordance with the CMB legislation. Member of this committee is Kadri Önel.

27. Financial Rights granted to Board of Directors

Members of our Board of Directors are paid a monthly fixed amount, while they have been paid YTL 750 per month within 2005. They have not been granted debt, loan and warranties.