COMMUNIQUÉ ON PRINCIPLES REGARDING FINANCIAL REPORTING IN HYPERINFLATIONARY PERIODS

(Serial: XI, No: 20)

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SECTION ONE
PURPOSE, SCOPE, LEGAL BASIS AND DEFINITIONS

Purpose

Article-1 The purpose of this Communiqué is to regulate the principles regarding the drawing up and presentation of financial statements in hyperinflationary periods.

Scope

Article-2 The provisions of this Communiqué are to be applied by publicly held corporations, intermediary institutions and investment trust companies, and their subsidiaries and affiliates in the drawing up and presentation of their financial statements in hyperinflationary periods.

Legal Basis

Article-3 This Communiqué is hereby stipulated pursuant to the amended article 16 and the paragraph (e) of article 22 of Capital Markets Law No: 2499.

Definitions

Article-4 For the purposes of this Communiqué; the following Definitions shall apply:

Law **:** Capital Market Law No:2499

Board **:** Capital Markets Board

Corporation	**:** Publicly held joint stock corporation whose shares have been offered to public or regarded as to be offered to public
Intermediary Institution	**:** Intermediary Institution as described in the paragraphs (a) and (b) of Article 30 of the Law
Investment Trust Company	**:** Investment Trust Company as described in Article 35 of the Law
Affiliate	**:** Affiliate as described in Board regulations regarding accounting standards
Subsidiary	**:** Subsidiary as described in Board regulations regarding accounting standards
Entity	**:** Publicly held corporations, intermediary institutions and investment trust companies, and their subsidiaries and affiliates
Financial Statement	**:** Together with the footnotes, and including consolidated financial statements, balance sheet, income statement and other annexed statements,
Financial Report	**:** Annual report of the Board of Directors and the Auditor's reports
Price Index	**:** Wholesale price index for Turkey announced by the State Institute of Statistics
Restatement Factor	**:**Coefficient calculated by dividing the price index at the date of balance sheet by the price index at the date of transaction subject to restatement
Restatement Process	**:** By using the restatement factor, removing the effect of high inflation from the financial statement items and presenting them at current values at the date of the financial statement
Current Value	**:** Result of the valuation based on prices and interest rates formed in Exchanges and other regulated markets, fair values, current foreign exchange rates, contractual interest rates and similar revaluation methods pursuant to the provisions of accounting standards of the Board,

Exemption Requirements

Article-5 A subsidiary or an affiliation of a corporation liable to draw up its financial statements in accordance with this Communiqué, due to its relation to the corporation falling under the scope of this communiqué may be exempt from the requirements of this Communiqué, if by meeting the conditions of the Board's Communiqués related to the consolidations, falls out of the scope of consolidation.

The restatement of the entity's financial statements in accordance with its own special regulations is considered to be by this Communiqué.

SECTION TWO
GENERAL PROVISIONS

High inflation period

Article-6 High inflation period begins from the annual accounting period in which, at the date of the annual balance sheet, the cumulative price index over the past three years more than doubles and the price index at the annual balance sheet date shows a rise of %10 or more with respect to the year begin. If the price index doubles in a period shorter than the time mentioned above; the high inflation period starts at that annual accounting period. Even if the increase in the price index does not reach the rate mentioned above, the Board may require financial statements to be drawn up according to this Communiqué if there are signs of high inflation effects such as;

- general population's preference to keep its wealth in foreign currency terms,

- and prices of goods and services being quoted in terms of foreign currency.

High inflation period ends when the cumulative inflation rate over past three years falls below 100%. If the annual inflation rate at the balance sheet date is lower than %10, this, by itself, does not end the continuing high inflation period.

In high inflation periods, financial statements are drawn up pursuant to the provisions of this Communiqué. However, in the first implementation year of this Communiqué, the previous year balance sheet must be restated in order to draw up the current period financial statements and reports in accordance with this Communiqué. When the high inflation period ends, this Communiqué is not required to be applied.

Monetary and non-monetary items

Article-7 Monetary items are items whose nominal value is preserved but purchasing power changes with changes in the value of the currency. They are listed in Appendix 1.

Non-monetary items are items other than monetary items.

Non-monetary items such as foreign exchange, precious metals, equities and securities which are valued in terms of current values, and assets and liabilities whose principals or returns are linked to inflations are treated as monetary items in the estimation of the monetary gain or loss.

Restatement of the financial statements

Article-8 In high inflation periods, entities should restate their financial statements. The provision regarding the restatement of the previous period's financial statements is reserved.

Non-monetary items are restated in accordance with this Communiqué by multiplying by the restating factors. The special provisions of this Communiqué related to monetary and non-monetary items, and calculations of monetary gain or loss are reserved.

Restating process may be based on collective methods which should not prevent a fair and true reflection of the financial statements (such as sales being dispersed regularly within the year). In that situation, applied methods have to be disclosed in the footnotes and used consistently in the following periods.

As the price index is announced monthly, the same restatement factor is used for all transactions realized in the same month. However, different daily restatement factors can be used for transactions taken place on different days of the month based on the assumption of a constant rate of inflation throughout the month. This procedure has to be disclosed in the footnotes.

SECTION THREE
RESTATEMENT OF FINANCIAL STATEMENTS

Restatement of the Balance Sheet

Article-9 Balance sheet amounts that are not expressed in terms of current values at the balance sheet date are restated by using the restatement factors calculated in pursuant to this Communiqué.

Monetary items should not be restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

Non-monetary items that are expressed at current values are not restated.

Date of restatement

Article 10 The assets whose capitalization date, purchase date or production date different from each other should be restated by considering the first entry recording of the purchase, production and cost elements. Special provisions for purchase and sale on credit are reserved.

Inventories of partly-finished and finished goods should be restated from the dates on which the costs of purchase and of conversion were incurred.

Restatement of the depreciable assets

Article 11 At the first time restatement of depreciable assets, previously added cost components of financing cost, exchange difference and revaluation should be reduced from cost in accordance with this article. However, Board accounting regulations may permit reel part of costs of financing to be added to depreciable assets costs under certain conditions. The reel part of cost of financing is the amount incurred costs over the inflation rate in the related period. That is, it is the surplus of the incurred cost from a liability over the reel value lost of the same liability. The estimation of the cost of financing from foreign currency debts includes exchange differences.

(Amended second paragraph; with Serial XI, No 24) The effect of revaluations on depreciable assets and accumulated depreciations by Tax Procedure Law numbered 213 are required to be eliminated.

The restatement process should be carried out on the values founded as described above. When the manufactured or built assets are restated, if the capitalization date is different, the first entry time of cost components should be taken into account.

Depreciation is allocated from restated value of asset over both the previous life and remaining life of assets in accordance with provision expressed in article 24. Because of this allocation method, the assets under previously applied different depreciation methods completely depreciated may be presented in the financial statements as undepreciated assets.

Restatement of inventories

Article 12 Raw materials, merchandises, inventories of partly-finished and finished goods should be restated consistently with the entity's inventory valuations policies. The costs of financing including exchange differences, added to those costs should be restated in accordance with provisions in article 11 and 23 of this Communiqué. Inventories of partly-finished and finished goods should be restated from the dates on which the costs of inputs used in the productions were incurred.

When the commonly used inventories are restated, collective restatements methods such as using average cost of all inventories or accepting the cost of near-end-period purchases as a cost of end of the period inventories may be used. These methods have to be used consistently following periods without preventing the true and fair reflection of financial statements.

Restatement of subsidiaries, affiliates, tied securities and other stocks

Article 13 The followings should be reduced from the historical cost of subsidiary, affiliate, tied securities and stocks which are not restated by stock market prices or Board consolidation regulations;

a) The amount of revaluation funds added to capital, as a result of of inflation,

b) The cost of financing including the ones arising from exchange rate differencials (for the real part, article 11 is valid).

For restatement, capital registration date will be taken as the basis period.

Restatement of capital items

Article 14 The revaluation fund allowed because of the inflation added to capital should not considered as share holders' contribution during the restating process. These types of funds are reduced from capital and equity. Addition of retaining earnings and previous years profits to the capital are considered as a capital contribution of share holders. Equity items described in this article and previously added to capital are restated from the date of capital increase registration or date of collecting capital increase. The paid in capital whether it has been added to capital or not, should be restated from payment date. At the end of the period in which the financial statements started to restate and followings periods, all components of equity is restated by considering the second paragraph or the date of increase of capital.

(Amended fourth paragraph; with Serial XI, No 26) The equity items are presented at historical costs in the financial statements. The differences from restatements are indicated under the account of "Equity Restatement Differences".

Restatement of income statement

Article 15 All items in the income statements should be expressed in terms of the measuring unit current at the balance sheet date. Therefore all amount to be restated by applying the change in the price index from the dates when the items of income and expenses were initially recorded in the financial statements. Special provisions carried by this Communiqué are reserved. Income and expenses pervasive over the period can be restated by applying the restating factor that is calculated by dividing the balance sheet date price index by average price index of that period without taking into account accrual date of these income statements items. In order to restate income statement items so that, they should disperse regularly over the period and there is no seasonally fluctuations in occurrence.

Restatement of depreciations

Article 16 Depreciations and depletion allowances should be estimated from restated values. When depreciations and depletion allowances are allocated to theirs accounts, the amount found by restating is considered. Therefore, they are not restated separately in the income statement.

Restatement of cost of sales

Article 17 The cost of sales is restated by considering the restated value of inventories and other cost components.

Restatement of accruals within the period

Article 18 Entities voluntarily present the allowances such as tax, severance that becomes definite at the end of period or be recalculated in accordance with the data available at the end of period in final value at balance sheet date. So that, partial amount of allowances allocated within the period are not restated by considering the accrual dates.

Profit and loss components in income statement

Article 19 Non-monetary items like sales of real assets without related to cost of sales directly associated with income statement as an income or expense should be restated by taking the difference between restated sales value of asset and restated cost of asset. These items should be not restated again.

Gain or loss on net monetary position

Article 20 Net monetary position is an excess of monetary assets over monetary liabilities or reverse.

In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities losses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. The gain or loss should be estimated in accordance with provisions in this Communiqué and be showed in the account of gain or loss on net monetary position.

In a period of inflation, entities should estimate the gain or loss on net monetary position by offsetting monetary assets gains and monetary liabilities loses. The gain or loss on net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, owners' equity and income statement items and adjustment of index linked assets and liabilities.

The gain or loss on net monetary position is included in net income. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with this Communiqué is offset against the gain or loss on net monetary position. Other income statement items, such as interest income an expense, and foreign exchange differences related to invested or borrowed funds are also associated with the net monetary position in the income statement. However, some of these items separately disclosed in the income statement according to Board regulations are reduced from the gain or loss on net monetary position. Items separately disclosed are disclosed in notes in order aggregately to figure out the gain or loss on net monetary position.

In order to confirm the truth of calculation, the gain or loss on net monetary position is also estimated by using a gain or loss on net monetary position table attached to appendix 2. The gain or loss on net monetary position is calculated by adding items creating an increase in the net monetary position within the period to the net monetary positions item at the beginning of the period and subtracting items creating a decrease in the net monetary position within the period to the total founded previous calculation. This amount is compared with the amount of net monetary position at the end of period.

SECTION FOUR
PRINCIPLES FOR VALUATION RESTATEMENT

Provisions for valuations

Article 21 In a period of inflation, provisions for valuations in this Communiqué have to be applied.

Costs of financing

Article 22 In a period of inflation, entities can add only reel portion of costs of financing which are allowed by the Board regulations.

Purchases and sales on credit

Article 23 In periods of inflation, price of items sold or bought with future payments in Turkish Lira include the inflationary portion. These items should be restated in accordance with this Communiqué.

Inflationary portion of forward dealing are determined by using the interest rate of internal government debt instruments or inflation rate over forward dealing durations or associated period, and then forward dealing items are restated after the reduction of calculated inflationary portions.

If there are difficulties in restating process according to second paragraph because of busyness of sell, buy and transactions, they are restated by considering payment-collection date, not sale or buying dates. However, if the maturity date of debts and receivables end after the balance sheet date, they are discounted with the interest rates defined in second paragraph, and discounted amounts are not directly write down as an expense, they are associated with related items such as assets, debts and receivable, sales and costs of sales.

If the contractual interest rates for receivables or debts arising from the forward dealings are 10 % or more higher than market interest rate, restatement of these items are carried out according to methods defined in second paragraph.

Principles for depreciations

Article 24 In periods of inflation, depreciations and depletion allowances should be estimated from restated values.

In a period of inflation, the provision in Board accounting standard which includes that the compliance of tax regulations for depreciations are not contrary to this provision has not to be applied. Items previously depreciated by tax regulation are depreciated by applying the new provision and calculated with regard to new rates over the past and future life of items.

Items acquired less than one year ago should be depreciated by applying the rate. This rate is a proportion of the used life over useful life.

Intangible assets should be amortized or depleted over restated values.

Restated values higher than market value

Article 25 The restated amount of a non-monetary item is reduced in accordance with this Communiqué, when it exceeds the amount recoverable from the items future use (including sale or other disposal). Hence, in such cases, restated amount of fixed assets are reduced to recoverable amount, restated amount of inventories are reduced to net realizable value and restated amounts of current investments are reduced to market value. When allocating allowances of impairment or valuing in net realizable value, Board regulations should be complied by considering criteria of whether allowances are permanent or temporary and impairment rate.

Restatements defined in this article should be carried out by allocating impairment allowances. Impairment allowances are associated with to income statement.

SECTION FIVE

SPECIAL PROVISIONS FOR THE FIRST RESTATEMENT OF FINANCIAL TABLES ACCORDING TO THIS COMMUNIQUÉ

Application of special provisions

Article 26 Special provisions in this section are to be applied in the first restatement of the financial tables according to this Communiqué. In following periods, these provisions are not applied.

Calculation of restatement factors

Article 27 (As amended by Serial XI, No 24) Restatement factors calculated by using price indexes in Appendix 3 should be used for transactions taken place after 1970. Transactions taken place before 1970 are assumed to have taken place in 1970. Wholesale price index for Turkey announced by the State Institute Statistics is to be taken as a basis of restatement factors in 2003 and the following years.

Financial statements to be drawn up

Article 28 In order to draw up income statement, at least one prior year balance sheet is mandatory to be restated in accordance with this Communiqué at the first time. The disclosure on whether prior financial statements are audited is expressed in notes.

Balancing first time restated financial statements

Article 29 At the beginning of first restatement period, the differences between restated assets, and restated liabilities and equities should be showed in an account named “past years gain or loss” in order to ensure the equality of balance sheet and this amounts should be disclosed in notes.

SECTION SIX
OTHER PROVISIONS

Additional financial statements

Article 30 The cash flow statement and the cost of sales sheet should be expressed in terms of the measuring unit current at the balance sheet date. The cash flow statement should be restated by applying the related restatement factors for items in unadjusted financial statements.

Restatement of prior period’s financial statements for comparison

Article 31 Financial statements are to be drawn up for comparison with prior period’s financial statements. In order to ensure healthy comparison, prior year’s financial statements should be restated in accordance with this Communiqué. The restatement of prior period’s financial statements should be carried out by multiplying all items in financial statements with the restatement factor of this period.

The prior period’s financial statements restated in contrary to this Communiqué should not be used for comparison with the financial statements restated in accordance with this Communiqué.

Consolidated financial statements

Article 32 The financial statements of subsidiaries or affiliates need to be restated in accordance with this Communiqué before they are included in the consolidated financial statements issued by the parent company.

Financial statements after hyperinflationary period

Article 33 Because of the cease of hyperinflationary period, the preparation of financial statements in accordance with this Communiqué is ended. Items in the last restated financial statements are used as a basis for preparation of the next period financial statements.

Disclosure

Article 34 Together with the disclosures required by other regulations of the Board, the following disclosures shall be made:

a) Disclosure on restatements

b) Disclosure on restatement criteria applied to items in financial statements.

c) Disclosure on various valuation methods when permitted by this Communiqué.

d) Disclosure on depreciations in accordance with tax regulations.

e) Disclosure on exempted subsidiaries defined in article 5.

f) Disclosure on conditions defined in article 8.

g) Disclosure on recorded value of issued capital or registered capital and legal reserves separated to conform Turkish Commerce Code and Articles of Association, as defined in article 14.

h) Disclosure on items defined in article 20, which included in gain or loss on net monetary position but expressed separately in the income statement.

ı) Disclosure on useful life of depreciable assets defined in article 24.

i) Disclosure on whether prior period's financial statements audited defined in article 28.

j) Disclosure on the differences between restated assets and restated liabilities and equities in first restatement period as defined in article 29.

Disclosures about financial statements' items restated in accordance with both this Communiqué and other Board regulations should be based on restated values.

Journal of restatement

Article 35 When financial statements and reports are restated, the relevant calculations are not to be registered in the journals and records required by other legislations and these records cannot be revised.

Entities, in periods of restatement of their financial statements are required to keep a journal of restatement in order to document the relation between restated financial statements and accounting records and to be able to correctly draw up next year's financial statements. In this journal, the following must be included:

a) Title of entity

b) Restatement year

c) Historical cost of restated items

d) Index values and restatement factors

e) Assumptions used in restatement.

f) Data about variables used in restatement (such as inventory turnover rate).

g) Asset aging methods used for calculating restatement factors.

h) Detailed list of inventories and other assets.

ı) Other records or information used in the restating process.

i) Financial statements and reports of subsidiaries and affiliates.

The journal of restatement can be kept in electronic or written form. The journal of restatement in written form must have consecutive page numbers and must be signed by authorized persons and kept for the time period required by the Turkish Commercial Code. If it is kept in electronic form, entity's board of directors have to take necessary precautions for keeping the information unaltered and saving it for a defined period of time. Under this condition, there are some information and records which could not be kept in electronic form; these are kept in written form.

Dividend distribution

Article 36 (Amended with Serial XI, No 24) Entities can not distribute the amount of dividend over the amount calculated by subtracting the amounts reserved by other Board regulations and Turkish Commerce Code from restated profits. If restated profits are less than historical cost based profits, smaller amounts are taken as a basis for distribution. If restated profits are decided to be distributed in the future years, the historical value of this restated value is to be considered. The special provisions of the Board for distribution of dividend are reserved.

Drawing up of the financial statements

Article 37 Financial statements shall be drawn up in with the format required by the relevant Board regulations and considering the provisions of this article.

Restated financial statements shall have a title which includes the expression of restatement.

In the restated income statement, "gain or loss on net monetary position" shall be added as the item prior to taxable income.

Provisions for financial statements of subsidiaries and affiliates

Article 38 Subsidiaries or affiliates normally having no responsibility for preparation of financial statements in accordance with this Communiqué, but its parent has a responsibility to draw up the financial statements in accordance with this Communiqué, have to be conform the same provisions complied by its parent without announcement liability of its own financial statements. This provision is valid for audit of financial statements.

Subsidiaries or affiliates operate in foreign countries where there is no hyperinflation, they are not mandatory to apply this Communiqué.

Announcement of financial statements and reports

Article 39 The announcement of restated financial statements and reports and declaration of them to the Board and related stock exchange is carried out by the defined time in the relevant Board regulations. However, in the first application period of this Communiqué, four weeks are added to the previous announcement and declaration times. The relevant Board accounting Communiqués shall be used for which financial statements are to be announced to public and decelerated to the Board and related stock exchange.

In periods of inflation, besides the restated financial statements described in the first paragraph, the historical cost based financial statements required by the other regulations of the Board are kept on sending to the Board and related stock exchange in order to published in bulletin of stock exchange without announced to public.

Entities can restate its financial statements in accordance with this Communiqué and disclose to public out of high inflation period. In that case, the restated financial statements should be sent to the Board and related stock exchange together with other financial statements.

Other provisions

Article 40 The other regulations of the Board on accounting shall be used for the conditions for which there is no provision in this Communiqué.

Temporary Article 1 (Abolished by Serial XI, No 23)

Entry into Force

Article 41 This Communiqué shall enter into force on the date of its publication, to be applied for annual and interim financial statements to be drawn up after 01.01.2003.

Execution

Article 42 The provisions of this Communiqué shall be executed by the Capital Market Board.