

# Otokar'06 annual report

Otokar Otobüs Karoseri Sanayi A.Ş.  
Head Office : Aydınevler Mah. Dumlupınar Cad. No:24 A Blok Küçükyalı 34855 İstanbul - Türkiye  
T: +90 216 489 2950 F: +90 216 489 2967  
Factory: Atatürk Cad. No:9 Arifiye 54580 Sakarya - Türkiye  
T: +90 264 229 2244 F: +90 264 229 2242  
[www.otokar.com.tr](http://www.otokar.com.tr)

Otokar'06 annual report



**Otokar** '06 annual report

## Sustainable Growth



““

“Growth...

Continuous growth through new products, investments, new markets and increased productivity...

Our “growth” understanding is the “sustainable growth” in parallel to our main corporate principles.”

””

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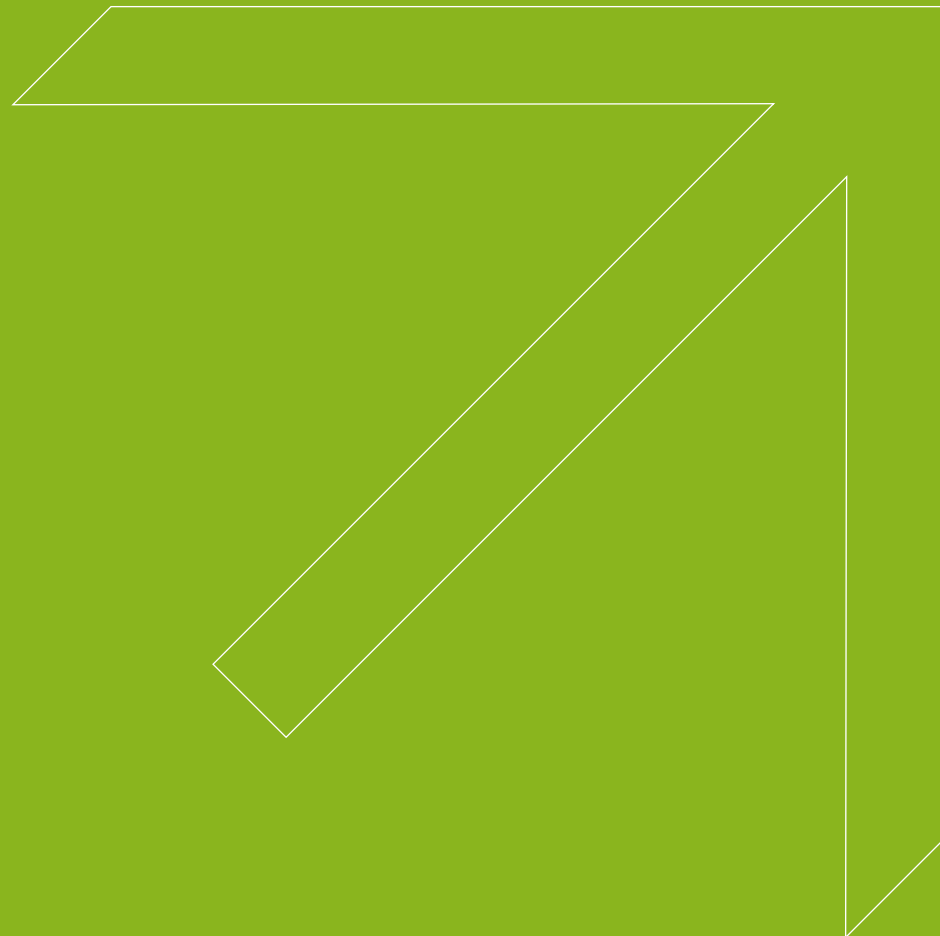
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# Introduction

“ Otokar Otobüs Karoseri Sanayii A.Ş. has been offering special solutions with its own technology, design and applications in the automotive industry in line with the requirements of the customers since 1963.

”

**Otokar‘06** annual report



## Otokar In Brief



Otokar Otobüs Karoseri Sanayii A.Ş. has been offering special solutions with its own technology, design and applications in the automotive industry in line with the requirements of the customers since 1963. Being a member of Koç Group, Otokar has been operating in its factory of 169.000 sqm in Arifiye, Sakarya with 950 employees since 1997. Manufacturing minibuses of M-2000 brand and medium size buses of Sultan, Navigo, Doruk and Vectio brands in the commercial vehicles segment, and semi-trailers of Fruehauf and Otokar brands, Otokar is also manufacturing tactical wheeled armored vehicles with its own design for defence industry and off-road vehicles of various types under the license of Land Rover Defender.

### Vision

Otokar designs and manufactures vehicles under its own brand name, as well as creating synergy with its licensors, with a remarkable added value through its own R&D capabilities. Otokar aims to ensure permanent satisfaction of its shareholders, customers and employees with a philosophy of perfection.

### Mission

Main duty of Otokar is to design, manufacture and market commercial vehicles and various defense industry products in line with the requirements of the customers with a worldwide competitiveness.

### Principles

Otokar aims at satisfaction of customers, sound growth and supply of products and services in universal quality and standards in accordance with the targets and principles established by the Koç Group. It targets to be a symbol of reliability, consistency and respectability for the country, customers, partners and subsidiary industry. Otokar regards the customers as a valuable asset. It works to be the best at all times. It believes that its most important capital is the human resources. It abides by the business ethics and working principles to create funds for continuous growth with the aim of delivering power to the Turkish economy from which it gets its power.





## Dear Shareholders,

We are experiencing the happiness and pride of delivering the added values we have created so far to the customers, the shareholders, the stakeholders and the country in 2006 as well.

Our aim is to deliver a sustainable growth to Otokar, to minimize the impacts of fluctuations in the market, to preserve our existence and success in the long run, to deliver added value to our shareholders and to the country; and while attaining these aims, to preserve the environmental resources being indispensable for the future by using the existing resources most efficiently.

Competition in a globalizing world surpasses the geographical boundaries, urging you to think more strategically, to be more planned and to work harder in order to maintain the success. As regards to the automotive industry in particular, it becomes ever harder for Turkey, which is regarded as the "manufacturing base of Europe", to preserve her competitive power against emerging economies like China, India, Russia as a natural consequence of globalization.

It seems that the ultimate requirements for preserving the competitive advantages and attaining a sustainable growth are to own and control technology and to create your own brand for niche markets. I am proud of saying that Otokar meets this requirement in line with the basic strategies of Koç Group and maintains the competitive power by designing its own vehicles.

Otokar is growing with vehicles of its own design. In the armored and commercial vehicles segments, Otokar responds to the requirements of domestic and international markets in a shortest time and goes to the potential markets with own brands independently.

The greatest power of Otokar comes from the fact that it operates in niche markets, analyzes the market and the customers very well, and offers the best solutions to expectations and requirements owing to its designing and flexible manufacturing capabilities. Offering products to different niche markets minimizes the impact of economic, social and political developments on the growth of Otokar. Otokar is sustaining the growth by maintaining the balance between the defence industry and the commercial vehicles.

By taking the advantage of this power, having foreseen the shrinkage of domestic demand during the second half of 2006, Otokar had established the strategies for 2006 as growing in the defence industry, increasing the share of exports in the turnover, and growing with new models. In 2006, Otokar has attained all of the targets and achieved a growth of turnover by 19 percent.

When we look at the industry and the developments in Otokar in 2006, we must talk about the success of Otokar in the defence industry segment. Otokar did record high deliveries in the armored vehicles segment during the previous year. Having won one of the largest defence industry contracts in recent

years, Otokar completed the deliveries in 2006 successfully. Thanks to the investments in technology in this segment, Otokar broke a record of its own production by manufacturing 529 armored vehicles. In 2006, the automotive industry ranked first in exports among the all manufacturing industries with an increase in exports by 26 percent. With the effect of defence industry deliveries, the increase achieved by Otokar has been 52 percent. Almost half of the turnover of Otokar amounting to TRY 338 million came from exports. With USD 100 million earned from the defence industry representing the greater part of the exports, Otokar preserved its leadership in the Turkish defence products exports this year as in 2005. Otokar made the highest defence industry exportation of Türkiye on turnover basis in 2006.

In 2006, during which records were broken in the automotive industry where the manufacturing reached approximately 1 million vehicles, Otokar broke its own record. In the armored vehicle manufacturing, Otokar attained the highest level ever attained by itself and the Turkish automotive industry. In the trailer segment, Otokar broke its own record with 1340 trailer sales owing to the new product developments and the growing market trends. Otokar continued its efforts to expand the product family with new models in the commercial vehicle and military vehicle segments and the distribution channel in Europe in medium size bus segment during 2006.

In the following pages you can find a summary of our works on products and markets we conducted with the aim of sustaining the growth in 2006 and afterward, of our investments, of the works aimed at increasing the productivity to raise the economic profitability, and of the new systems we have introduced.

We will continue our works at the same speed and decisiveness in 2007 in order to sustain the success we achieved in 2006 and to achieve new successes. Our primary target for 2007 is to be pioneer and a favored supplier in commercial vehicles developed in accordance with the customer trends in the domestic market, to become prominent with our design and manufacturing capabilities in the projects pursued in line with the growing demand across the world in the defence industry segment, and to achieve a sound position in European market in the medium size bus segment with existing and new products.

As a manufacturing company which not only manufactures but also develops technology and offers it to the service of the customers, we are persistently monitoring through our experienced and capable human resources the market trends and the developments in designs and manufacturing in the world in order to attain these targets correctly and on a timely manner and working toward preserving the confidence you have for Otokar and reflecting the results of our works to you positively.

I wish a prosperous and successful 2007 for Otokar and the shareholders.

Kudret Önen  
Chairman

## Members of the Board of Directors

## Members of the Board of Auditors



**Kudret ÖNEN**  
Chairman



**Halil İbrahim ÜNVER**  
Vice Chairman



**Alpay BAĞRIAÇIK**  
Member



**Ali Tarkan UZUN**  
Member



**Selçuk GEZDUR**  
Member



**A.Serdar GÖRGÜÇ**  
Member - General Manager



**Taylan BİLGEL**  
Member

Powers of the chairman and members of the Board of Directors have been established in accordance with the article 12 of the Articles of Association and the provisions of the Turkish Commercial Code.



**Serkan ÖZYURT**  
Auditor



**Metin UTKAN**  
Auditor

Powers of the auditors have been established in accordance with the article 16 of the Articles of Association and the provisions of the Turkish Commercial Code.



## "Growth..."

Continuous growth through new products, investments, new markets and increased productivity...

Our "growth" understanding is the "sustainable growth" in parallel to our main corporate principles."



In order to achieve the sustainable growth, Otokar diversifies the products it offered to the taste of the customers, evaluates different opportunities in the markets and targets new markets with existing and new products, invests in the production, the human resources, and the issues making the foundation for its existence in the long run, aims at attaining the economic profitability through efficient works in productivity and improvement.

## EXPANDING THE PRODUCT RANGE

In order to achieve a sustainable growth, the change must be coped with and even managed. New products; the products that you have the intellectual property rights attached to them... Your idea, your design, your production. The most important element that enables the world automotive giants to grow consistently and become powerful.



### Cobra 20 mm Cannon

Analyzing the needs and requirements of the customers and continuing the product developments in the armored vehicle industry in a best way, Otokar introduced a new product to the worldly known Cobra family this year. The new model of Cobra, an armored vehicle that satisfies more than one needs occurring at various regions and conditions, was first exhibited in Eurosatory 2006 exhibition held in Paris.

### Sultan Maxi

Caring for the needs and requirements of medium size bus owners, Otokar has introduced Sultan Maxi, the new model of Sultan 145S series, in order to respond to the demand of particularly tour organizers for a more comfortable and economic vehicle with higher passenger capacity. Having the same technical specifications with Sultan 145S, Sultan Maxi with 31 passenger seats earned favor of customers with its economic fuel consumption and powerful and long life engine. Sultan Maxi was first exhibited in Istanbul Commercial Vehicles Fair 2006 in May.

### Sultan 125S

Becoming aware of the need for an economic vehicle with 27 seats for short distance commutation in metropolises, Otokar introduced Sultan 125S, a new member of Sultan series, in August. Following acceptance of Sultan 125S in the market, Otokar developed the intercity bus version of this series, Sultan City 125S. Offered for sale in the last quarter of 2006, Sultan City 125S welcomed with enthusiasm by the intercity transporters together with Sultan City 145S, the other version of the intercity bus series. Lower fuel consumption and economic use of Sultan City 125S were appreciated.







## Navigo 160SE

Targeting to expand the product range in the European commercial vehicle market, Otokar introduced Navigo 160SE, the last member of the medium size bus family with Navigo brand, in 2006. Navigo 160SE was first promoted to the market in the International Commercial Vehicle Exhibition IAA 2006 held in Hannover, Germany in September.

## Vectio

Otokar introduced the last product of product range expansion works for the European market in the commercial vehicles fair IAA 2006 held in Germany in September. The medium size bus series VECTIO developed for Europe was offered to the taste of the market in the fair. This new series of buses, which is in length of 9 meters with 35 seats, has been designed by Otokar Research and Development team.

## Doruk

The medium size bus series branded Doruk has been developed for the domestic market. Being in length of 9 meters, the bus will be launched to the market in 2007. The bus has been entirely designed by Otokar.



## Otokar Semi-trailers

Otokar introduced a new semi-trailer family in 2006. Besides the semi-trailers with Fruehauf brand manufactured under a license, Otokar has introduced Otokar brand semi-trailers developed to meet the needs of the domestic market. The semi-trailer has been designed to the international quality standards and the European norms. The new series introduced in 2006 has four models: Duet, Kontena, Plato and Spira.



## Otokar CNG Trailer

Otokar continued the product development works during 2006 with a customer-focused approach in the trailer segment. With a semi-trailer specially designed for Koç Statoil in 2006, Otokar manufactured the CNG trailer having the world's highest carriage capacity which is 20% more than the comparable trailers. This trailer project was launched first time in Turkey with the aim of designing a trailer for cost-efficient forwarding of CNG (Compressed Natural Gas) by Koç Statoil.

## OPENING TO NEW MARKETS

Look for the new at all times, be open to the innovation, and foresee the trends in the market... Discover the new markets and the potentials in the existing markets...

## Defence Industry

The defence industry products have a significant share in the export turnover of Otokar for the last two years. Besides working on new products in line with the perceived needs of the market with a view to growing its defence industry business, Otokar kept searching new markets.

Today, Otokar design armored vehicles are being used over 15 countries' armed forces. Otokar attends the leading defence industry exhibitions in the world with the aim of promoting its new and diversified products to existing and potential customers in order to efficiently increase the number of users of Otokar products.

Otokar attended Eurosatory 2006 exhibition, the most important fair of Europe, held in Paris in June and DSA 2006 exhibition held in Kuala Lumpur, Malaysia in April this year. The vehicles exhibited in the fair were highly appreciated.

In line with the ever rising homeland security threats across the world, Otokar continued throughout 2006 the test operations of "Otokar Armored Internal Security Vehicle", the prototype of which was developed in 2005, in different climates and geographies so as to ensure its fitness for the targeted markets.



## Public Transportation

Otokar has set the target for the medium size buses as European market. With vehicles filling the gap of medium size buses in public transportation in Europe, Otokar took important steps in this segment in 2006. Thanks to the confidence built over the years in the European market for Türkiye as the number one bus supplier of Europe, Otokar is safely advancing its business in the European markets.



As part of its efforts to expand the product range and distribution channel in the European markets, Otokar attended many international commercial vehicle and bus exhibitions. The most important of them was the IAA 2006 fair, where the new bus series Vectio was introduced to the market. In the fair which was held in Hannover, Germany in November, Otokar sought the opinions of the European customers about the first model of Vectio and 31-seat model of Navigo and introduced them to various user groups. Otokar has plans to offer Vectio for sales in 2007.

Regarding the international exhibitions as an important element of building new co-operations, Otokar continued to reinforce and expand its distribution network in the international markets during 2006. Efforts to build a dealer network for Otokar buses in Europe continued throughout the year as well.



Supplying vehicles to the public transportation segment in the domestic market, Otokar met the needs and requirements of customers renewing their vehicles in 2006.

In 2006, the medium bus market was more active than the minibus market. A poll conducted by an independent public poll firm revealed that Otokar delivered the highest customer satisfaction as a medium bus brand in 2006.

In 2006, particularly in the small cities, there was a shift from minibuses to medium size buses in the intercity transportation. The Otokar brand minibuses, which have gained reputation in the market for their performance and durability in public transportation over the years, offered a good reference for the Sultan City brand medium size buses.

In line with this trend in the market, fleet sales of medium size buses for use in public transportation increased. Sultan City 145S, the intercity bus version, has become popular in cities like Çanakkale where public transportation is widely used.



In smaller towns, there was a shift toward medium size buses as they offer higher carriage capacity with cost-efficiency for short distance travels in 2006. The trend was responded with Sultan City 125S which was introduced to the market during the last quarter. Many towns like Bandırma, Kocaeli have begun to use Sultan City 125S.

With the aim of pacing with the trends in and introducing its vehicles to the market, Otokar conducted special promotional activities for Sultan-brand medium size bus through its dealers in many cities and towns across the country. Besides the local and regional exhibitions, Otokar attended İzmir International Exhibition, which is visited by great number of bus buyers, and Istanbul Commercial Vehicles Fair, which is held biannually, in order to introduce its vehicles to the market.

Otokar is preparing for introducing the initial versions of the new medium size bus series to the Turkish market. Otokar is going to launch the 9m medium size bus series, DORUK, to the market during 2007.

With a view to reinforcing its presence in the vehicle renewal market, Otokar continued the Clinic Days campaign in 2006 in order to get feedback from the customers about the vehicles and to route the customers to after sales services for routine maintenance and service.

## Semi-trailer

Otokar continued to offer solutions with Fruehauf brand to the international logistics and forwarding firms during 2006. Responding to the ever increasing demand for semi-trailers in line with the growth of international forwarding in Türkiye with manufacturing by international certifications, Otokar broke the sales record in its history by selling 1340 semi-trailers in 2006. Especially in the frigorific transportation segment, Otokar maintained its position as the market leader with its frigorific semi-trailer, Otokar-Fruehauf Iceliner.



Increasing sensitivity in the market in line with the harmonization with the EU legislation in hazardous substances transportation positively affected the ADR tanker manufacturing of Otokar. As a result of product development efforts in this segment, Otokar has developed the first electronic seal and electronic level measurement tankers of Türkiye. Offering the safest solutions to the market with the ADR certificate issued by the international accreditation firm RW-TÜV and with the R111 type approval under the regulation ECE R111 setting out the tanker turnover stability requirements, Otokar has become the market leader in this segment as well.

Foreseeing a shift from trucks to trailers in the domestic market following the introduction of new transportation regulations and tonality limit controls in February 2006, Otokar introduced the new series semi-trailers with Otokar brand to the market after the second half of the year.

The Otokar brand semi-trailers, which have been launched with the aim of being present in the ever growing domestic market with a larger product range, meeting the needs of local forwarders, getting prepared for the shift from trucks to semi-trailers, and serving to different industries, were introduced to truck users and terminals in major cities and towns in different regions of Türkiye. During one month roadshow organized some 4 thousand users met with the new models of Otokar in 34 points in 24 cities.







## INVESTMENT IN TODAY AND TOMORROW

Investing in not only today's opportunities but also in tomorrow's needs for growing in the long run... Preserving the nature and resources as the foundation of our existence in the future...

### Critical Technology and Production Investments

In order to meet the orders for armored vehicles received during the preceding year more efficiently and productively, Otokar invested in two new equipments for use in the existing armored vehicle assembly line in 2006. Costed some \$1.5 million, the new Body Welding Robot and Laser Cutting Mill have been put into use.

Bringing the state of the art armored vehicle manufacturing technologies in the world to Türkiye, Otokar has taken its place among the leading armored vehicle manufacturers of the world with this investment, Otokar increased the product development and delivery speed, raised the quality of manufacturing, and increased the speed of armored vehicle assembly line 2.5 times.

Breaking record in trailer manufacturing in 2006, Otokar continued its investment in this segment. Planned to improve the efficiency of after sales service provided within the factory building, the Trailer After Sales Service Building was completed and commissioned in 2006.



Türkiye, Otokar commissioned the ADR Certified - X-Ray weld controlled tanker assembly line in 2006 to meet the demand in this segment.

### Significant Steps in Research and Development

Approximately 80% of Otokar's turnover comes from the products resulting from the own research and development efforts of Otokar. Being aware of the importance of R&D for a sustainable growth, Otokar is striving to improve its technology and R&D resources.



In 2006, Otokar took an important step in validation of testing, measurement and simulation processes as a critical part of its R&D efforts. Investments done during the last two years have begun to be used actively. In testing of computer designs under lab and road conditions, Otokar achieved a success as high as 90% in validation of the designs and the tests. Thanks to this, Otokar validated its simulation methods, while facilitated the subsequent design processes.

Otokar's testing and infrastructure works to international standards resulted in products with proven strength, reliability and durability from the very first day of introduction to the market.

In line with the importance given to the R&D, Otokar increased the investments in human resources in this field in 2006.

### Human Resources Investments

Being conscious of the fact that the most important capital is the human resource, Otokar gave emphasis to the issues such as management and leadership development and investing in future's executives with the notion of "Integrated Performance and Development" in 2006, in addition to the existing projects and training courses.

In 2006, Otokar introduced the mentoring system with the aim of accelerating and facilitating adaptation of newly recruited employees to the culture of Koç Group and Otokar.

Besides the social facilities provided to the employees, with clubs offering various activities from diving to traveling, sports tournaments, family festivities, cultural activities, seniority awards, and many other events, Otokar made efforts to raise the loyalty and motivation of its employees. In addition, interactive meetings such as unit dinners aimed at reinforcing the communication between the employees and the top management and department breakfasts aimed at giving to the employees the opportunity to voice their demands concerning the human resources were organized.

By the end of 2006, the number of Otokar employees is 958; 287 of which are white collar and 671 of which are blue collar employees.

### Investing in the Future

Taking initiatives for protection and support of the community and the environment in all its activities as a company being aware of the corporate responsibility, Otokar regards the works and investments in the environment as an investment in the future.

Sensitivity of Otokar for the environment was once again prized in 2006. For its environmental projects, Otokar was awarded the "Environment Service Prize" by the Akdeniz University.

Besides the investments in the environment, With the aim of investing in the future, supporting the developments in the automotive industry, paving the way for young inventors, and contributing to the use of different energy resources in automotive industry in the future, Otokar sponsored SAGUAR (Sakarya University Solar Car) design project developed by Sakarya University in 2006. The latest model SAGUAR X5 developed in 2006 was awarded the second prize in the Inter-universities Formula G 2006 Solar Vehicles Competition, attended by 20 vehicles, held by TÜBİTAK in Izmir.



### Investment in the Region

With the aim of being a good neighbor and contributing to the economic and social well-being of the region, Otokar actively takes part in social events related with educational institutions and environment in the region, besides creating jobs for the people of the region.

In 2006, Otokar actively took part in the social responsibility project initiated by Koç Holding on the occasion of its 80th anniversary. Otokar made donations to Arifiye Children's Home tied to the Social Services and Child Protection Institution.

For its contribution to the economy of the country and the region, Otokar was awarded the "Outstanding Exportation Performance Prize" by Adapazarı Chamber of Commerce and Industry, the "Outstanding Corporation Tax Payment Prize" by Adapazarı Chamber of Commerce and Industry, and the "Top 500 Corporations Prize" by Adapazarı Chamber of Commerce and Industry in 2006.





ATTAINING THE ECONOMIC PROFITABILITY

Gaining a competitive edge for sustainable growth amidst ever increasing competition... Becoming more productive, more creative and more innovative... Ensuring contribution by all employees and systems to attainment and maintenance of economic profitability...

Gaining a Competitive Edge

To gain a competitive edge, Otokar is introducing new models and methods fitting to the organization and structure of the company. One of them is the Six Sigma model, which is generally accepted as an efficient method that creates cost advantage in all companies around the world. Otokar regards the Six Sigma as the axis of improving the performance of the processes by solving the problems and attaining the work excellence.

Owing to the Six Sigma process introduced in 2004 following comprehensive training, Otokar saved \$1.5 million as at the end of 2006. Of this, \$1 million was saved during 2006 when the projects were put into motion more intensively.

Encouraging Innovation

One of the systems introduced by Otokar in 2006 with the aim of improving the processes to increase productivity, gaining competitive edge in product and service quality and costs, and raising the employee loyalty and satisfaction is the Otokar Reward and Recommendation System. Based on the idea that quality and productivity can increase only by the recommendations of the employees who are actually doing the work and that the employees can get more satisfaction from jobs to which they add value, the system produced some 60 recommendations in each month. 80 percent of the recommendations have been implemented following the review and approval of the top management. 28 employees who posted qualified recommendations were rewarded in accordance with the system regulations.



Being Open to Innovation and Ready for the Future

In order to maintain the sustainable growth, Otokar continued its investment in productivity and improvement in 2006.

With the aim of increasing the productivity, works on the SAP project have begun to integrate all processes, including Production, Engineering, Quality Control, Planning and Purchasing, into a platform. Spare Part Sales and Accounting processes, which are the phase one of the SAP system that consists of units such as Inventory Management, Material Management, Sales Distribution, etc. as an integral part of all modern companies in the world, have being implemented since late 2006 successfully.

In order to increase the productivity in the assembly lines, Otokar has changed its production organization to the process unit basis. In addition, the "Otokar 2010 Production Management System" project based on simple production has been started with the aim of maintain the productivity increase in the future.

Agenda

Report Of Board Of Directors

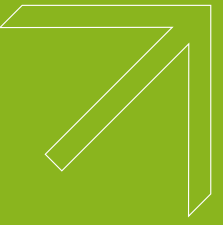
Auditor’s Report

Independent Auditor’s Report

Financial Statements And Notes

Financial Ratios

Corporate Governance Compliance Report

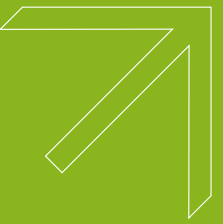


## AGENDA

FOR THE 44th ANNUAL GENERAL MEETING  
OF OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.  
TO BE HELD AT 10.30 AM ON 05.04.2007

- 1- Opening and election of Chairing Board.
- 2- Reading and discussion of the Directors's Report, the Auditors' Report and the Audit Report of Başaran Nas Serbest Muhasebeci Mali Müşavirlik A.Ş., the independent auditors, for the activities and accounts of 2006. Acceptance as the same or as changed or rejection of the Directors' proposal regarding the balance sheet and the income statement for 2006.
- 3- Release of the Directors and the Auditors from their obligations regarding the activities in 2006.
- 4- Acceptance as the same or as changed or rejection of the Directors' proposal for distribution of the profit 2006 and for dividend payment date.
- 5- Giving information about dividend policies for 2007 and subsequent years pursuant to the Principles of Corporate Management.
- 6- Re-election or replacement of the Directors whose office term ended and determination of their office terms.
- 7- Re-election or replacement of the Auditors whose office term ended and determination of their office terms.
- 8- Determination of the monthly gross remunerations to the Chairman and Members of the Board of Directors and the Auditors.
- 9- Giving information to the General Meeting about the donations and aids provided by the Company to tax-exempted foundations and societies during 2006.
- 10- Approval of the selection by the Board of Directors of the independent audit firm pursuant to the regulation on the Capital Market Independent External Audit issued by the Capital Market Board.
- 11- Authorizing the Directors to carry out the transactions within the subject of the Company by themselves or on behalf of others and to become partner in companies which carry out such transactions and to carry out other transactions in accordance with the articles 334 and 335 of the Turkish Commercial Code.
- 12- Signing of the minutes of the General Meeting by the Chairing Board on behalf of the General Meeting and passing a resolution to the effect that signing by the Chairing Board suffices the need.
- 13- Wishes.

# Report Of The Board Of Directors



OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## REPORT OF THE BOARD OF DIRECTORS

FOR THE PERIOD OF 01.01.2006 - 31.12.2006

PRESENTED TO THE 44TH ANNUAL GENERAL MEETING HELD ON 5 APRIL 2007

Dear Shareholders,

Welcome to the 44th Annual General Meeting held to evaluate the business results of 2006 and to discuss and resolve on the issues in the agenda. Thank you for your attendance.

In this meeting, we would like to give information about what we did in 2006 and present to your inspection and approval of the financial statements prepared in accordance with the generally accepted accounting principles issued by the Capital Market Board, showing the business results of 2006.

Following are the members of the Boards of Directors and Auditors during the period, their office periods and titles:

### Board of Directors:

Name and Last Name	Title	Office Period	
		Beginning	Ending
Kudret ÖNEN	Chairman	20.04.2006	05.04.2007
Halil İbrahim ÜNVER	Vice Chairman	20.04.2006	05.04.2007
Alpay BAĞRIAÇIK	Member	20.04.2006	05.04.2007
Selçuk GEZDUR	Member	20.04.2006	05.04.2007
Ali Tarkan UZUN	Member	20.04.2006	05.04.2007
A.Serdar GÖRGÜÇ	Member	20.04.2006	05.04.2007
Taylan BİLGEL	Member	20.04.2006	05.04.2007

Powers of the chairman and members of the Board of Directors have been established in accordance with the article 12 of the articles of association and the provisions of the Turkish Commercial Code.

### Board of Auditors:

Name and Last Name	Title	Office Period	
		Beginning	Ending
Serkan ÖZYURT	Auditor	20.04.2006	05.04.2007
Metin UTKAN	Auditor	20.04.2006	05.04.2007

Powers of the auditors have been established in accordance with the article 16 of the articles of association and the provisions of the Turkish Commercial Code.

### Capital of the Company and the Shareholders Holding Over 10% of the Shared Capital:

As at 31.12.2006, the registered capital of the Company is YTL 25 million and the issued capital YTL 24 million.

Following are the shareholders holding over 10% of the shared capital of the Company and the amount and percentage in the capital of the shares held by them:

Name of Shareholder	Amount of Shares (YTL)	Percentage (%)
Koç Holding A.Ş.	10.300.952	42,92
Ünver Holding A.Ş.	5.954.944	24,81

The remaining 32.27% of the shares amounting to YTL 7,744,104 at par value is held by some 5396 shareholders according to the recent information we received from Merkezi Kayıt Kuruluşu A.Ş. [Central Registration Institution, Inc.].

Of our shares of stock traded in the Istanbul Stock Exchange, the lowest value was YTL 8.65 and the highest value YTL 17.80, as at 11.12.2006, during the period.

### Dividends Paid During the Last Three Years and their Percentages:

Otokar paid dividends at the following percentages on the issued capital in the recent years, except for 2003:

Period	Percent (%)
2001	65,00
2002	55,50
2003	-,-
2004	60,00
2005	40,00

Dividends for the account periods 2001 and 2002 were fully paid to the shareholders in cash. In 2003, however, no dividend could be paid as the profit was set off against the losses in the previous years resulting from the first time implementation of the International Financial Reporting Standards (IFRS). Dividends for the periods 2004 and 2005 were fully paid to the shareholders in cash.

### Invested Company:

Our share in the capital of Entek Elektrik Üretimi A.Ş. based in İzmit is 0.86% as at 31.12.2006.



## AUTOMOTIVE INDUSTRY AND OTOKAR

The product range of Otokar, which is in the light commercial vehicles segment of the automotive industry, covers vehicles such as minibus and midibus for the commercial market, demanded for public transportation and commuting services on the one hand and the 4-wheel drive off-road vehicles in various types and the rubber-tire light armored vehicles manufactured for the defense industry on the other. In addition, we are manufacturing trailers and semi-trailers under the brandname of Otokar-Fruehauf for the forwarding and logistics industry.

That the economic and political stability continued in 2006 was an important factor which strengthened the Turkish economy. Lack of substantial adverse fluctuations in the world economy and positive developments in the domestic markets led to achievement of the targets for 2006. Positive indicators of the political stability and the economic growth prevailed during 2006.

The inflation rates targeted for 2006 were achieved at expected levels, with seasonal fluctuations aside, during the year, and the Manufacturing Prices Index was 11.6% and the Consumer Prices Index 9.7%. The rates indicate that the raise in the costs was reflected in the consumer prices during 2006.

Due to hot money outflows during May and June 2006, the Turkish lira devalued 25%, but foreign currency inflows continued with the effect of raising interest rates, restoring the value of the Turkish lira. This adverse situation led to rising of the interest rates, growing of the current deficit and increase of the inflation rate.

Turkish lira devalued at 9.0% against Euro and 6.7% against US dollar.

In general, the growth in 2006 is regarded positive, though it is below the target. Developments in both capacity utilization and employment are bringing positive results. These developments in the economy and growth in production as well as positive expectations for the exchange rates led to record high exports on monthly basis in 2006 throughout of the history of the Turkish Republic.

Despite a significant drop in the domestic demand particularly during the second half of the year, manufacturing in the automotive industry continued to grow owing to the growth in exports. Exportation of the automotive industry in 2006 grew by 23% over 2005, exceeding US\$ 14.4 billion.

From this overall perspective, we can summarize the developments in the automotive industry in 2006 based on the data from the Association of Automotive Industrialists as follows:

- o Manufacturing grew by 12% over the previous year, reaching 988.000 vehicles.
- o Manufacturing in the Light Commercial Vehicles Segment has been as follows:
  - Minibus grew by 21%
  - Midibus grew by 16%
  - Pickup grew by 6%.
- o As to the heavy commercial vehicles segment:
  - Bus grew by 11%
  - Large Truck shrank by 1%
  - Small Truck not changed.
- o Car manufacturing grew by 20%.

In the light commercial vehicles segment, the sales grew by 10% in 2006 over 2005, the domestic sales shrank by 12% and the imports by 7%, while the market share of the import vehicles has been 47%.

## MANUFACTURING AND SALES

Following are the manufacturing and sales units of the Company by the product types compared with the previous period:

	<u>2006</u>		<u>2005</u>		<u>Change</u>		<u>% Change</u>	
	<u>Manuf. Sales</u>		<u>Manuf. Sales</u>		<u>Manuf. Sales</u>		<u>Manuf. Sales</u>	
Minibus	455	464	569	569	(114)	(105)	(20)	(18)
4x4 Off-road	838	678	1.028	1.101	(190)	(423)	(18)	(38)
Armored	547	529	174	178	373	351	214	197
Small Bus	935	769	793	747	142	22	18	3
Trailer	1.350	1.340	1.148	1.155	202	185	18	16
<b>TOTAL</b>	<b>4.125</b>	<b>3.780</b>	<b>3.712</b>	<b>3.750</b>	<b>413</b>	<b>30</b>	<b>11</b>	<b>1</b>

As shown by the financial statements prepared in accordance with the generally accepted accounting principles issued by the Capital Market Board, the turnover of the Company grew by 19% in real terms over the previous year. Distribution of the turnover by domestic and international markets compared with the previous year is as follows:

	<u>2006 (YTL)</u>	<u>2005 (YTL)</u>	<u>% Change</u>
Domestic Sales	177.454.844	178.762.711	(1)
International Sales	160.160.606	105.249.811	52
<b>TOTAL</b>	<b>337.615.450</b>	<b>284.012.522</b>	<b>19</b>

Our international sales amount to \$ 111,834,662 in total, representing a growth by 43% in export turnover over the exports in the previous year, which amounted to \$ 78,043,290. In 2006, Otokar realized the all-time largest deliveries in armored vehicles, becoming a leader in Türkiye in the Defense Industry exports amounting to \$ 100 million.

In 2006, capacity utilization was 25% in Minibus, 45% in Midibus, 23% in off-road vehicles and 100% in Armored Vehicles and Trailers.

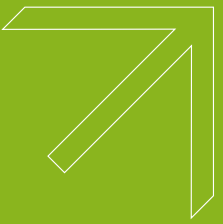
Growth of Otokar is driven by vehicles of its own design with proprietary intellectual rights. Having foreseen the shrinkage in the domestic demand during the second half of 2006, Otokar established its strategy for 2006 as to grow in the defense industry, to increase the share of exports in the turnover, and to grow with new models. The Company has successfully attained all the established targets, increasing its turnover by 19 percent.

Otokar attended Eurosatory 2006 Fair held in Paris, which is one of the leading fairs in defense industry, with its new designed armored vehicle, Cobra. Our stand was visited and our Cobra welcomed with great interest by Defense and Military executives from many countries. We expect that this interest will turn into exports during 2007 and after.

Also targeting to expand its product range in the European commercial vehicles market, Otokar attended the International Commercial Vehicle Fair IAA held in Hannover, Germany in 2006 in order to present its Navigo 160SE, the last member of the small bus family marketed with Navigo brand in Europe, and VECTIO, the medium size bus series. Our new products were appreciated by the potential customers. We expect that our commercial vehicle exports will increase during the coming years. In Türkiye, we attended the Istanbul Commercial Vehicles Fair with our products meeting the demand and requirements of the small bus owners.



# Report Of The Board Of Directors



## INVESTMENTS

In order to achieve the rapid growth we targeted with the vehicles having the proprietary intellectual rights, we continued the investments in the "Otokar Research and Development Center" which was started in recent years following a significant decision taken in the research and development area.

Investments made in the machinery and equipment within the scope of R&D Center and modernization so far amount to some \$ 4.5 million.

In addition to the current investment in the armored vehicle assembly line, we have installed the Body Welding Robot and the Lased Cutting Mill, valued some \$ 1.5 million, in 2006 in order to meet the armored vehicle orders received during the previous year more efficiently and productively.

Specially designed for Otokar, the Body Welding Robot of rotating type with 6 axes and dual-positioner is able to make automatic body welding inside and outside on two types of vehicles simultaneously with high precision and speed.

The Laser Cutting Mill having a dual-pallet system with automatic loading for fast and precise cutting has been put into use to make cutting at a precision of 0.01 mm without affecting the quality of armor sheet and to raise the speed and quality of cutting of metal sheets owing to its programmability via the CAD system.

Bringing the state of the art armored vehicle manufacturing technologies in the world to Türkiye, Otokar has taken its place among the leading armored vehicle manufacturers in the world with these machinery and equipment. Owing to this investment, Otokar has increased the speed of product development and delivery on the one hand and the speed of armored vehicle manufacturing by 2.5 times on the other.

Being the first tanker manufacturer with ADR Certificate of Türkiye, Otokar has introduced the ADR Certified X-Ray Weld Inspected Tanker Assembly Line as a result of the demands for such tankers in 2006.

Reaching a record high in trailer manufacturing in 2006, Otokar continued the investment in this field and completed and commissioned the Trailer Service Building during the year in order to enhance the trailer services which were once delivered within the factory building.

## ADMINISTRATION

Following are the top executives as at 2006:

<u>Name and Last Name</u>	<u>Title</u>
Serdar GÖRGÜÇ	General Manager
Hüseyin ODABAŞ	Deputy General Manager, Financial Affairs
Ali Rıza ALPTEKİN	Deputy General Manager, Production
Murat ULUTAŞ	Deputy General Manager, Technical Affairs
H. Basri AKGÜL	Deputy General Manager, Marketing and Sales
Mustafa BAKIRCI	Director, Research and Development

The number of employees is 958 as at 31.12.2006. Of these, 287 are administrative staff and 671 workers. No labor dispute and action occurred during the period.

The Company is bound with the Collective Labor Agreement signed with the Turkish Metal Union and the MESS on 21.10.2006, effective from 01.09.2006. The term of the agreement is two years which will end on 31.08.2008.

The Company donated YTL 865.395 to foundations and societies having tax exemption as a social aid during the year.

In order to ensure a sustainable growth, Otokar continued to its investments in productivity and improvement during 2006.

In order to improve the productivity, the Company has commenced the works on the SAP system for transition to a platform by which all processes, including Production, Engineering, Quality Control, Planning and Purchasing, can be managed in integration. As the first phase of the SAP system, which is widely used in the world by modern companies as an integral part of the management consisting of the processes such as Inventory Management, Material Management, Sales Distribution, etc., the Accounting and Spare Part Sales processes have been launched successfully since late 2006.

## FINANCIAL RESULTS

As we noted at the beginning of the report, the Company prepares and presents to the general meeting and the public of the financial statements for 2006 in accordance with the generally accepted accounting principles issued by the Capital Market Board.

The financial statements for 2006, the footnotes and the ratios are presented in the other sections of the report for your inspection.

The Company's 2006 turnover amounts to YTL 337,615,450, gross sales profit YTL 106,222,834 and operational profit YTL 51,284,114.

As shown by the financial statements prepared in accordance with the generally accepted accounting principles issued by the Capital Market Board, the Company closed 2006 with a pre-tax profit of YTL 51,284,114 by setting aside depreciation of YTL 4,973,602 and a reserve for severance pay and warranty expenses of YTL 317,279.

The Company will pay statutory tax amounting to YTL 9,269.324 for 2006. For the deferred tax earnings, the Company has set aside a tax reserve of YTL 9,871,605 for 2006, as shown on the financial statements. The tax reserve aside, the Company earned a net profit of YTL 41,412,509 in 2006.

# Report Of The Board Of Directors

From the post-tax profit of YTL 41,412,509, which is distributable as dividend, YTL 1,064,518, the amount of previous year loss resulting from the application of the International Accounting Standard 39 ("IAS 39"): Financial Instruments, whereby the change in the accounting policy is applied retrospectively to revise the amounts in comparison with the previous periods, has been deducted. We kindly request your approval for the following: YTL 1,080,071.77 is set aside from the remaining sum as the first level statutory reserve pursuant to the article 466 of the Turkish Commercial Code; the remaining YTL 39,267,919.23 is the distributable profit for 2006; YTL 40,133,314.23, being the sum arrived at by adding YTL 865,396, the amount of donations made during the year, to the aforesaid sum, is the base of the first dividend; YTL 8,026,662.85, being 20% of the dividend base, which percentage has been determined by the Capital Market Board as the minimum dividend percentage for 2006, is proposed to be paid to the shareholders in cash as first dividend; the remaining YTL 21,973,337.15 is proposed to be paid as superior dividend; thus the total amount of dividends payable from the profit of the current year is YTL 30,000,000, being 125% of the issued capital; YTL 2,880,000 is proposed to be set aside from the gross dividend as the Second Level Statutory Reserve pursuant to the article 446/3 of the Turkish Commercial Code; and the remaining sub is proposed to be set aside as the Extraordinary Reserve.

If this proposal is accepted, the total amount of cash dividend of YTL 30,000,000, computed as 125% of the issued capital, will be paid to the shareholders who are full tax payers and the shareholders who are limited tax payers who earn dividends through a workplace or a permanent representation office in Türkiye at the rate of 125% (gross=net YTL 1.25 per share of YTL 1.00) and to the other shareholders at the rate of 106.25% (net YTL 1.0625 per share of YTL 1.00)

We propose that the dividend payment date is scheduled as 15.05.2007.

We have summarized the business results of 2006.

Dear Shareholders,

This Board of Directors has completed its office term. This general meeting is going to appoint the members of the Board of Directors for the next period. We thank you for your confidence, appreciation and assistance to us during our office term.

15 March 2007

Chairman  Directors

# Auditor's Report

## AUDITOR'S REPORT

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

### To the General Meeting of Shareholders ISTANBUL

Following is the result of the audits we have done during the account period 2006 for your consideration.

1. The Company experienced a period which was successful in the activities carried out in accordance with the Capital Market Law and the relevant laws and regulations.

2. We have found that the books and records required to be kept compulsorily pursuant to the Turkish Commercial Law and the relevant laws and regulations have been kept in accordance with the requirements of the laws and that the documents evidencing the records maintained in good order.

3. In our opinion, the attached financial statements as at 31.12.2006, the contents of which are acceptable to us and which were prepared in accordance with the "Communiqué on the Accounting Standards in Capital Market" Serial XI, No. 25 issued by the Capital Market Board, reflect the actual financial condition of the Company at the said date and the actual business results for the said period accurately.

4. We have found that the resolutions related with the management of the Company have been registered in the resolution book kept in accordance with the procedures.

Consequently, we present to your consideration of the works carried out by the Company as summarized in the Directors' Report, of the financial statements prepared in accordance with the Capital Market Law, of the proposal of the Board of Directors for distribution of the profit, and of the release of the Board of Directors. Istanbul, 15.03.2007.

Auditor  
Serkan Özyurt



Auditor  
Metin Utkan





# Independent Auditor's Report

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.  
**INDEPENDENT AUDITOR'S REPORT**  
FOR THE YEAR ENDED 31 DECEMBER 2006



1. We have audited the accompanying financial statements of Otokar Otobüs Karoseri Sanayi A.Ş. which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## *Management's Responsibility for the Financial Statements*

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

## *Auditor's Responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the auditing standards issued by the Capital Markets Board. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

4. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Otokar Otobüs Karoseri Sanayi A.Ş. as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards issued by the Capital Markets Board (See Note 2).

## *Additional paragraph for convenience translation into English:*

5. 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 IAS 29 - "Financial Reporting in Hyperinflationary Economies" and IAS 1 - "Presentation of 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 Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
a member of  
PricewaterhouseCoopers

  
Zeynep Uras, SMMM

Istanbul, 9 March 2007

# Financial Statements



OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## BALANCE SHEETS

AT 31 DECEMBER 2006 AND 2005

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

### ASSETS

	Notes	2006	Restated 2005
<b>Current Assets</b>			
Cash and Cash Equivalents	4	637.141	8.878.575
Marketable Securities (net)	5	-	-
Trade Receivables (net)	7	74.760.435	89.712.561
Leasing Receivables (net)	8	-	-
Due From Related Parties (net)	9	584.927	3.664.554
Other Receivables (net)	10	596.761	1.097.789
Biological Assets (net)	11	-	-
Inventories (net)	12	91.905.121	41.590.109
Construction Contract Receivables (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	11.679.078	4.841.474
<b>Total Current Assets</b>		<b>180.163.463</b>	<b>149.785.062</b>
<b>Non-current Assets</b>			
Trade Receivables (net)	7	34.603.642	14.671.780
Leasing Receivables (net)	8	-	-
Due From Related Parties (net)	9	-	-
Other Receivables (net)	10	-	-
Financial Assets (net)	16	1.542.712	1.972.851
Goodwill/Negative Goodwill (net)	17	-	-
Investment Property (net)	18	-	-
Property, Plant and Equipment (net)	19	40.129.471	41.397.311
Intangible Assets (net)	20	611.953	508.552
Deferred Tax Assets	14	-	-
Other Non-Current Assets	15	-	-
<b>Total Non-Current Assets</b>		<b>76.887.778</b>	<b>58.550.494</b>
<b>Total Assets</b>		<b>257.051.241</b>	<b>208.335.556</b>

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

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## BALANCE SHEETS

AT 31 DECEMBER 2006 AND 2005

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

### LIABILITIES

	Notes	2006	Restated 2005
<b>Current Liabilities</b>			
Financial Liabilities (net)	6	46.310.292	26.962.707
Short-Term Portion of Long-Term Financial Liabilities	6	-	-
Leasing Liabilities (net)	8	-	-
Other Financial Liabilities (net)	10	-	-
Trade Payables (net)	7	55.597.235	34.052.660
Due to Related Parties (net)	9	2.056.662	2.331.613
Advances Received	21	3.627.854	26.911.292
Construction Contracts Progress Payments (net)	13	-	-
Provisions	23	1.532.458	1.379.871
Deferred Tax Liability	14	-	-
Other Liabilities (net)	15	6.184.524	7.173.965
<b>Total Current Liabilities</b>		<b>115.309.025</b>	<b>98.812.108</b>
<b>Non-Current Liabilities</b>			
Financial Liabilities (net)	6	-	-
Financial Leasing Liabilities (net)	8	-	-
Other Financial Liabilities (net)	10	-	-
Trade Payables (net)	7	-	-
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions	23	5.802.558	4.932.392
Deferred Tax Liability	14	1.006.475	361.856
Other Liabilities (net)	15	-	636.049
<b>Total Non-Current Liabilities</b>		<b>6.809.033</b>	<b>5.930.297</b>
<b>Minority Interest</b>		<b>-</b>	<b>-</b>
<b>Shareholders' Equity</b>			
Share Capital	25	24.000.000	24.000.000
Treasury Shares	25	-	-
Capital Reserves	26	64.591.476	65.063.953
Share Premiums		-	-
Share Cancellation Profit		-	-
Revaluation Fund		-	-
Financial Assets Fair Value Reserve		898.363	1.370.840
Inflation Adjustment to Shareholders Equity		63.693.113	63.693.113
Profit Reserves	27	5.993.716	7.588.011
Legal Reserves		4.544.498	3.208.566
Statutory Reserves		-	-
Extraordinary Reserves		1.449.218	4.379.445
Special Reserves		-	-
Investment and Property Sales Gains to be Added To Capital		-	-
Translation Reserve		-	-
Net Income for the Year		41.412.509	9.355.484
Accumulated Deficit (-)	28	(1.064.518)	(2.414.297)
<b>Total Shareholders' Equity</b>		<b>134.933.183</b>	<b>103.593.151</b>
<b>Total Shareholders' Equity and Liabilities</b>		<b>257.051.241</b>	<b>208.335.556</b>

Commitments and Contingent Liabilities

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Financial statements at and for the year ended 31 December 2006 were approved by the Board of Directors on 9 March 2007.

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



OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.  
**STATEMENTS OF INCOME**  
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

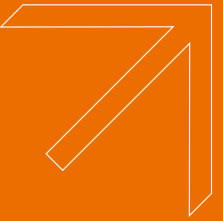
(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

Notes	2006	2005
<b>Revenue from Primary Operations</b>		
Sales (net) 36	337.615.450	284.012.522
Cost of Sales (net) 36	(231.392.616)	(214.731.013)
Service Sales (net)	-	-
Other Income (Interest, Dividend, Rent) from Primary Operations (net)	-	-
<b>Gross Profit from Primary Operations</b>	<b>106.222.834</b>	<b>69.281.509</b>
Operating Expense (net) 37	(64.384.362)	(53.071.424)
<b>Income from Primary Operations</b>	<b>41.838.472</b>	<b>16.210.085</b>
Other Operating Income 38	39.522.687	21.834.944
Other Operating Expense (-) 38	(24.757.113)	(28.489.122)
Financial Expense (-) 39	(5.319.932)	2.733.663
<b>Operating Income</b>	<b>51.284.114</b>	<b>12.289.570</b>
Monetary Loss 40	-	-
<b>Minority Interest</b> 24	<b>-</b>	<b>-</b>
<b>Income Before Tax</b>	<b>51.284.114</b>	<b>12.289.570</b>
Taxation on income 41	(9.871.605)	(2.934.086)
<b>Net Income for the Year</b>	<b>41.412.509</b>	<b>9.355.484</b>
<b>Profit per Share (YKr)</b> 42	<b>0,173</b>	<b>0,039</b>

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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

	Share Capital	Inflation Adjustment to Shareholders Equity	Legal Reserves	Extraordinary Reserves	Financial Assets Fair Value Reserve	Total Accumulated Deficit	Net Income for the Year	Shareholders' Equity
<b>Balances at 1 January 2005</b>								
- as previously reported	24.000.000	63.963.113	830.700	-	-	-	20.688.105	109.211.918
Change in accounting policy and correction of an error (Note 2.4)	-	-	-	-	1.945.091	(1.996.401)	51.310	-
<b>Balances at 1 January 2005</b>								
- as restated	24.000.000	63.963.113	830.700	-	1.945.091	(1.996.401)	20.739.415	109.211.918
Transfer to legal and extraordinary reserves	-	-	2.377.866	4.379.445	-	13.982.104	(20.739.415)	-
Dividends paid	-	-	-	-	-	(14.400.000)	-	(14.400.000)
Fair value decrease on available-for-sale investments	-	-	-	-	(574.251)	-	-	(574.251)
Net income for the year	-	-	-	-	-	-	9.355.484	9.355.484
<b>Balances at 31 December 2005</b>	<b>24.000.000</b>	<b>63.693.113</b>	<b>3.208.566</b>	<b>4.379.445</b>	<b>1.370.840</b>	<b>(2.414.297)</b>	<b>9.355.484</b>	<b>103.593.151</b>
<b>Balances at 1 January 2006</b>								
- as previously reported	24.000.000	63.693.113	3.208.566	4.379.445	306.322	(1.349.779)	9.355.484	103.593.151
Correction of an error (Note 2.4)	-	-	-	-	1.064.518	(1.064.518)	-	-
<b>Balances at 1 January 2006</b>								
- as restated	24.000.000	63.693.113	3.208.566	4.379.445	1.370.840	(2.414.297)	9.355.484	103.593.151
Transfer to legal reserves	-	-	1.335.932	-	-	8.019.552	(9.355.484)	-
Dividends paid	-	-	-	(2.930.227)	-	(6.669.773)	-	(9.600.000)
Fair value decrease on available-for-sale investments	-	-	-	-	(472.477)	-	-	(472.477)
Net income for the year	-	-	-	-	-	-	41.412.509	41.412.509
<b>Balances at 31 December 2006</b>	<b>24.000.000</b>	<b>63.693.113</b>	<b>4.544.498</b>	<b>1.449.218</b>	<b>898.363</b>	<b>(1.064.518)</b>	<b>41.412.509</b>	<b>134.933.183</b>



OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.  
**STATEMENTS OF CASH FLOWS**  
 FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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

	Notes	31 December 2006	31 December 2005
<b>Cash flows from operating activities</b>			
Net income		41.412.509	9.355.484
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortisation	19, 20	4.973.602	6.889.199
Provision for employment termination benefits	23	1.134.518	1.371.060
Increase / (decrease) in deferred tax liabilities	14	602.281	(689.072)
Gain from tangible assets sales	38	(107.202)	(28.525)
Provision for income taxes	41	9.269.324	3.623.158
Provision for doubtful receivables	7	109.995	6.228.790
Loss from valuation of derivative financial instruments	31	-	-
Interest expense - net	38, 39	2.616.224	1.116.440
Deferred financial (income) / expense - net		(1.073.132)	611.934
Impairment of available-for-sales investments	16	-	83.490
Foreign currency loss / (gain) on borrowings	39	2.276.200	(4.456.600)
<b>Net cash provided by operating activities before changes in operating assets and liabilities:</b>		<b>61.214.319</b>	<b>24.105.358</b>
(Increase) / decrease in trade receivables	7	(4.359.700)	9.498.521
Decrease / (increase) in balances with related parties	9	2.869.316	(1.838.542)
Increase in inventories	12	(50.555.012)	(3.752.591)
Increase in other current assets	10, 15	(6.336.576)	(4.640.131)
Increase in trade payables	7	21.822.374	1.930.478
Increase in warranty provision	23	115.496	181.236
(Decrease) / increase in other current liabilities	15	(25.252.775)	18.071.108
Increase in the provision of unused vacation rights	23	668.383	525.169
Taxes paid	41	(8.806.286)	(4.666.232)
Employment termination benefit payments	23	(932.735)	(904.922)
Recovered doubtful receivables	7	661	436.241
<b>Net cash (provided by)/used in operating activities</b>		<b>(9.552.535)</b>	<b>38.945.693</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment	19	(3.415.862)	(4.118.401)
Purchase of intangible assets	19	(203.962)	(210.123)
Proceeds from sale of tangible asset		157.863	21.281
Interest received		434.922	601.002
<b>Net cash used in investing activities</b>		<b>(3.027.039)</b>	<b>(3.706.241)</b>
<b>Financing activities:</b>			
Increase / (decrease) in revolving credits	6	27.774.096	(611.262)
Increase in term borrowings		18.200.600	68.977.050
Repayment of borrowings		(29.124.650)	(82.506.950)
Interest paid		(2.904.492)	(2.726.019)
Dividends paid		(9.600.000)	(14.400.000)
<b>Net cash provided by / (used in) financing activities</b>		<b>4.345.554</b>	<b>(31.267.181)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(8.234.020)</b>	<b>3.972.271</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>8.871.161</b>	<b>4.898.890</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>637.141</b>	<b>8.871.161</b>

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

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.  
**NOTES TO THE FINANCIAL STATEMENTS**  
 AT 31 DECEMBER 2006

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

## NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Otokar Otobüs Karoseri Sanayi A.Ş. ("Otokar" or the "Company") was established in 1963 and is registered in Istanbul, Turkey under the Turkish Commercial Code. The Company operates in the automotive industry. Land Rover 4x4 land vehicles, armoured vehicles, minibuses and midibuses, trailers, semi-trailers and cross-country the majority of its production. The number of the personnel in the Company is 958 (31 December 2005: 988).

The registered addresses of the Company are as follows:

Head Quarter:

Aydınevler Mahallesi, Dumlupınar Cd. No:24 A Bl.  
 81580 Küçükyalı/Istanbul

Factory:

Atatürk Cad. No 9  
 54580 Arifiye/Sakarya

The Company has significant business transactions with the Koç Group companies. The Company has both customer and supplier relationships with several related parties from the Koç Group. The Company is registered with the Capital Markets Board ("CMB") and its shares are quoted on the Istanbul Stock Exchange ("ISE") since 1996. At 31 December 2006, the shares quoted on the ISE are 29,91% of the total shares. At 31 December 2006, the principal shareholders and their respective shareholdings in the Company are as follows (Note 25):

	%
Koç Holding A.Ş.	42,92
Ünver Holding A.Ş.	24,81
Other	32,27
	100,00

## NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

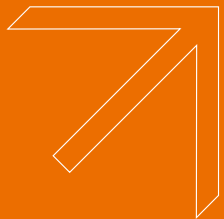
### 2.1 Accounting standards

The financial statements of the Company have been prepared in accordance with the accounting and reporting principles published by the Capital Markets 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" (the "Communiqué"). In the aforementioned Communiqué, it has been stated that applying the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") is accepted as an alternative to conform to the CMB Accounting Standards.

With the decision taken on 17 March 2005, the CMB has announced that, effective from 1 January 2005, the application of inflation accounting is not necessary for companies operating in Turkey and preparing their financial statements in accordance with CMB Accounting Standards. Accordingly, the Company did not apply International Accounting Standards ("IAS") 29 "Financial Reporting in Hyperinflationary Economies" issued by the IASB in its financial statements for the accounting periods starting on 1 January 2005.

These financial statements and the related notes have been prepared under the alternative application defined by the CMB as explained above and presented in accordance with the reporting format required by the CMB with the announcement dated 20 December 2004.





The Company maintains its books of account and prepares its statutory financial statements ("Statutory Financial Statements") in New Turkish Lira in accordance with the requirements of the Turkish Commercial Code (the "TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The financial statements are prepared in New Turkish Lira ("YTL") based on the historical cost convention except for the financial assets and liabilities which are expressed with their fair values. These financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with CMB Accounting Standards.

## 2.2 Financial reporting in hyperinflationary periods

When necessary, comparative financial statements have been reclassified in order to ensure consistency with current period financial statements.

On 17 March 2005, CMB announced that companies operating in Turkey and preparing financial statements in accordance with generally accepted accounting principles issued by the CMB should not apply inflation accounting for the periods beginning after 1 January 2005.

IAS 29 requires that financial statements 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 periods be restated in the same terms. The restatement of the comparative amounts was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Indices and conversion factors used to restate the comparative amounts until 31 December 2004 are given below:

Dates	Index	Conversion factor	Cumulative three-year inflation rates (%)
31 Aralık 2004	8.403,8	1,000	69,7
31 Aralık 2003	7.382,1	1,138	181,1

## 2.3 Consolidation

The Company has no financial assets to consolidate.

## 2.4 Comparative and restatement of prior periods' financial statements

The financial statements of the Company include comparative financial information to enable the readers to review the financial position and performance of the Company. The balance sheet of the Company at 31 December 2006 has been presented with the comparative financial information at 31 December 2005 and the statement of income, the statement of changes of shareholders' equity and the statement of cash flows for the period ended 31 December 2006 have been presented with the comparative financial information for the year ended 31 December 2005.

IAS 39 - "Financial Instruments: Regulations and Measurement" has been revised effective from periods beginning on or after 1 January 2005. In accordance with the revised standard, unrealized gains and losses on available-for-sale investments should be directly recognised in equity until these financial assets are derecognised. The Company had recognised gains and losses in the statement of income until 31 December 2004. The Company changed its accounting policy for available-for-sale investments as required by IAS 39, effective 1 January 2005. Accordingly, the Company applied the accounting policy change retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8) and all related comparative financial information have been restated as if the new accounting policy was applicable in previous periods as well.

The effect of these corrections on the retained earnings in the accompanying financial statements are as follows:

	1 January 2005
Increase in revaluation fund of available-for-sale investment	1.945.091
Decrease in retained earnings	(1.945.091)
<b>Change in Shareholders' Equity</b>	<b>-</b>

The accounting policy change mentioned above has been reflected as YTL 880.573 instead of YTL 1.945.091 due to an error made in the financial statements at and for the year ended 31 December 2005. The Company corrected such error retrospectively in accordance with IAS 8. At 1 January 2005, the effect of this error has been included in the table above presenting the effect of the restatement for the accounting policy change. The effect of these corrections on the retained earnings in the accompanying financial statements are as follows:

	1 January 2006	1 January 2005
Increase in revaluation fund of available-for-sale investment	1.064.518	1.064.518
Decrease in retained earnings	(1.064.518)	(1.064.518)
<b>Change in Shareholders' Equity</b>	<b>-</b>	<b>-</b>

## 2.5 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset 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 followed in the preparation of these financial statements are summarized below:

### 3.1 Cash and cash equivalents

The cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand, deposits at banks and highly liquid investments with maturity periods of less than three-months (Note 4).

### 3.2 Trade receivables and provision for impairment

Trade receivables that have been entitled by the Company by providing goods or services directly to a debtor are carried at amortised cost. Short-term receivables with no stated interest rate are measured at the 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 the impairment subsequently decreases due to an event accruing after the write-down, the release of the provision is credited to other income (Note 7).



3.3 Related parties

For the purpose of these financial statements, shareholders, key management personnel, members of Board of Directors, their families and the companies affiliated with them are considered and referred to as related parties. A number of transactions are entered into with related parties in the normal course of business. These transactions have been performed with prices adequate to market values (Note 9).

3.4 Inventories

Inventories are valued at their lower of cost, or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount for factory overheads. The cost of inventories is determined on the moving monthly 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).

3.5 Available-for-sale investments

Investments intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management reviews the classification of these financial assets on a regular basis.

Financial assets whose fair value can be reliably estimated are carried at fair value. All other financial assets classified as available-for-sale are carried at cost after the deduction of any impairment. When the Company is not able to make an estimate of the fair values that are sufficiently reliable for certain unlisted financial assets for which the Company has less than 20% ownership, due to the high variability in the range of reasonable estimates and various outcome probabilities to assess the usefulness of a single estimate, these securities are recorded at cost after deduction for any impairment. The unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised in shareholders' equity (Note 16).

3.6 Property, plant and equipment and related accumulated depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets (Note 19).

Taking into consideration the practice of other companies in the sector and improvements in the repair and maintainance processes, the Company established a team to evaluate estimated useful lives of the tangible assets and altered estimated useful lives of tangible assets effective 1 July 2006. As a result of this change, current year depreciation expense decreased by YTL 1.148.042 as of 31 December 2006 compared to the amount had the original lives were unchanged. Due to the effect of this change on the carrying values of tangible assets and inventories, deferred tax liability and current year tax expense have increased by YTL 229.608 and total assets have decreased by the same amount. The effect of these

changes has increased the shareholder's equity as of 31 December 2006 by YTL 918.434. The depreciation periods for property and equipment, which approximate the economic useful lives of releted assets, are as follows:

	New useful Life	Old useful Life
Land improvements	30 years	25 years
Buildings	30 years	25 years
Machinery and equipment	4-15 years	4-10 years
Furniture and Yixtures	5-13 years	4-6 years
Vehicles	9 years	4-10 years
Special costs	4-5 years	4-5 years

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of net selling price or value in use. Net selling price is determined by deducting any expenses to be incurred for the sale of an asset from the fair value of the asset. Value in use is determined by adding the discounted net cash flows from the future use of the asset to residual value of the asset.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amounts and are included in operating profit.

3.7 Intangible assets

Intangible assets comprise acquired intellectual property and computer software (Note 20). They are recorded at acquisition cost and amortised on a straight-line basis over their estimated economic lives for a period not exceeding 5 years from the date of acquisition. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

3.8 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3.9 Borrowings

Borrowings are recognised initially at proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between the proceeds and redemption value is recognised in the income statement over the period of the borrowings. Borrowing costs are charged to the income statement when they are incurred (Note 6).





## 3.10 Deferred taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income taxes.

Deferred tax liabilities are recognised for all taxable temporary differences, whereas 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.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset accordingly. Deferred tax assets and liabilities have been classified as non-current in the balance sheet (Note 14).

## 3.11 Reserve for employment termination benefits

Reserve for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 23).

## 3.12 Foreign currency transactions and translation

Transactions in foreign currencies during the period 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 to New Turkish Lira at the exchange rates prevailing at period-end. Exchange gains or losses arising on the settlement and translation of foreign currency items have been included in the statements of income.

## 3.13 Revenue recognition

Revenue recognition involves the invoiced value of the goods and service sales. Revenues are recognised on an accrual basis at the time deliveries of the goods and services or acceptances are made, the risks are transferred and benefits related to good are realised, 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 the consideration received or receivable. The significant risks and benefits in sales are transferred when the goods are delivered or legal proprietorship is transferred to the customer.

Interest income is recognised in the income statement on an accrual basis. Net sales represent the invoiced value of goods shipped less sales returns and commission and excluding sales taxes.

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 on an accrual basis as financial income.

Dividend income from subsidiaries is recognized when the Company's right to receive dividend is established.

## 3.14 Provisions

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

## 3.15 Contingent assets and liabilities

Probable rights and 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 treated as contingent assets or liabilities.

## 3.16 Dividends

Dividend distribution on ordinary shares are recognised as an appropriation of profit in the period in which they are declared (Note 25).

## 3.17 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

## 3.18 Warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses for products produced and sold, authorised services' labour and material costs for products under the scope of the warranty terms without any charge to the customers, initial maintenance costs and estimated costs based on statistical information for possible future warranty services and returns of products with respect to the products sold during the period (Note 23).

## 3.19 Financial instruments and financial risk management

The Company's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

### Interest rate risk

The Company is exposed to interest rate risk 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.

### Funding risk

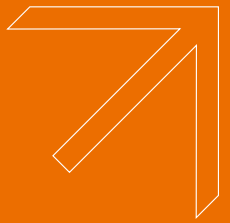
The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

### Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk from any individual counterparty and taking collaterals against the risks. Credit risk of the Group mainly arises from trade receivables. Trade receivables are evaluated by management depending on their past experiences and current economic condition, and are presented in financial statements net of adequate doubtful provision.

### Foreign currency risk

The Company is exposed to the foreign exchange risk through the impact of rate changes at the translation of foreign currency denominated liabilities to local currency. These risks are monitored and limited by the analysis of foreign currency position.



## 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 practicable to estimate fair value:

### Monetary assets

The fair values of balances denominated in foreign currencies, which are translated at period-end exchange rates, are considered to approximate carrying values.

The fair values of certain financial assets carried at cost, including cash and amounts due from banks, are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

### Monetary liabilities

The fair values of bank borrowings and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

## 3.20 Earnings per share

Earnings per share amount is calculated by dividing net profit by the weighted average number of shares that have been outstanding during the period.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, bonus shares are not considered in the weighted average number of shares calculation.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue (Note 42).

## 3.21 Reporting of cash flows

For purposes of preparation of the statements of cash flows, cash and cash equivalents include cash on hand, bank deposits and loans originated by the Company by providing money directly to a bank under reverse repurchase agreements with predetermined sale prices at fixed future dates of less than three months.

Balances related to the cash flow statement are as follows:

	2006	2005
Bank deposits and cheques (Note 4)	637.141	8.878.575
Less: Interest accruals	-	(7.414)
	<b>637.141</b>	<b>8.871.161</b>

## 3.22 Impairment of assets

At each reporting date, the Company assesses whether there is any indication that book value of tangible and intangible assets, calculated by acquisition cost less accumulative amortisation, may be impaired. When an indication of impairment exists, the Company estimates the recoverable values of such assets. When individual recoverable value of assets can not be measured, recoverable value of cash generating unit of that asset is measured.

Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount, which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

When recoverable amount of an asset (or a cash generating unit) is lower than its carrying value, the asset's carrying value is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement, however if such asset is revalued, the related impairment loss is reduced from the revaluation fund.

An impairment loss recognised in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognised. Such a reversal amount cannot be higher than the previously recognised impairment and is recognized as income in the consolidated financial statements, however when related asset is revalued, reversed impairment loss is added to revaluation fund.

## 3.23 Changes in accounting policies, accounting estimates and errors

Significant changes in accounting policies and determined significant accounting errors are applied retrospectively and prior period financial statements are restated. If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognised both in the period where the change is applied and future periods prospectively.

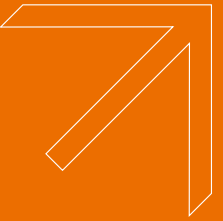
## NOTE 4 - CASH AND CASH EQUIVALENTS

	2006	2005
Banks		
- demand deposits	239.951	2.830.457
- time deposits	-	4.753.774
Cheques received	370.109	1.250.756
Other	27.081	43.588
	<b>637.141</b>	<b>8.878.575</b>

Cheques received balance consist of cheques given to banks for collection and have maturities between 1 to 3 days. The Company has blocked bank deposits amounting to YTL1.145 at 31 December 2006 (31 December 2005: YTL1.145).

## NOTE 5 - MARKETABLE SECURITIES

None (2005: None).



## NOTE 6 - FINANCIAL LIABILITIES

	2006		YTL
	Interest rate (%)	Amount in original currency	
<b>Short-term borrowings</b>			
YTL Borrowings	13,50 - 27,00	27.845.314	27.845.314
EUR Borrowings	3,39 - 4,84	6.081.148	11.259.246
USD Borrowings	5,28 - 5,99	5.126.446	7.205.732
<b>Total</b>			<b>46.310.292</b>

	2005		YTL
	Interest rate (%)	Amount in original currency	
<b>Short-term borrowings</b>			
EUR Borrowings	3,39 - 3,47	8.621.517	13.686.658
USD Borrowings	5,28	5.030.664	6.750.145
YTL Borrowings	0 - 14,00	6.525.904	6.525.904
<b>Total</b>			<b>26.962.707</b>

## NOTE 7 - TRADE RECEIVABLES AND PAYABLES

### TRADE RECEIVABLES

	2006	2005
Trade receivables	22.171.124	58.959.505
Notes receivables	59.708.652	38.914.907
Deposits and guarantees given	256	256
	<b>81.880.032</b>	<b>97.874.668</b>
Less: Provision for doubtful receivables	(6.593.469)	(6.484.135)
Less: Unearned financial income	(526.128)	(1.677.972)
<b>Short-term trade receivables-(net)</b>	<b>74.760.435</b>	<b>89.712.561</b>
Notes receivables	36.461.480	16.108.466
Deposits and guarantees given	5.256	5.256
Less: Unearned financial income	(1.863.094)	(1.441.942)
<b>Long-term trade receivables-(net)</b>	<b>34.603.642</b>	<b>14.671.780</b>

Movement of the provision for doubtful receivables for the years ended 31 December 2006 and 31 December 2005 are as follows:

	2006	2005
1 January	6.484.135	691.585
Recoveries	(661)	(436.240)
Provision for the period (Note 38)	109.995	6.228.790
<b>31 December</b>	<b>6.593.469</b>	<b>6.484.135</b>

### TRADE PAYABLES

	2006	2005
Trade payables	56.325.496	34.506.914
Note payables	51.034	47.242
Less: Unrealised credit finance charges	(779.295)	(501.496)
<b>Short-term trade payables-(net)</b>	<b>55.597.235</b>	<b>34.052.660</b>

## NOTE 8 - LEASING RECEIVABLES AND PAYABLES

The Company rents the office in Küçükyalı / İstanbul through operational lease agreements made with Koç Holding A.Ş., which is a related party. The sum of the minimum lease payment liabilities of the Company due to the operational lease agreement is as follows:

	YTL
Less than a year	157.440

Total rent expense related to the rent contract amounts to YTL157.440 (2005: YTL144.991) for the year ended 31 December 2006.

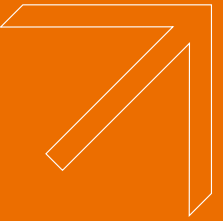
The Company also rents vehicles assigned to top management and sales employees with an operational lease from another related party, Otokoç Otomotiv Tic. ve San. A.Ş.. The sum of the minimum lease payment liabilities of the Company due to the above mentioned operational lease agreements is as follows:

	YTL
Less than a year	81.836

Total rent expense related to the contract amounts to YTL101.299 (2005: YTL75.228) for the year ended 31 December 2006.

The Company does not have any receivable or payable balance related to the operational leases (2005: None).

The Company does not have any financial lease agreement as of 31 December 2006 (2005: None).



## NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Due to and due from related parties as of year-end and transactions with related parties during the year are given below:

i) Balances with the related parties at 31 December 2006 and 2005:

Bank balances:	2006	2005
Yapı ve Kredi Bankası A.Ş.		
- Demand deposits	121.721	252.653
Koçbank A.Ş.		
- Demand deposits	(*)	1.991.348
- Time deposits	(*)	4.753.774
	<b>121.721</b>	<b>6.997.775</b>

Due from related parties:	2006	2005
Ram Dış Ticaret A.Ş.	325.244	534.761
Otokoç Otomotiv Tic. ve San. A.Ş.	161.424	-
Döktaş Ticaret ve San. A.Ş.	72.194	-
Beldeyama Motorlu Vasıtalar San. A.Ş.	16.048	-
Ford Otomotiv Sanayi A.Ş.	11.470	2.558.372
Koç Statoil Gaz A.Ş.	-	385.296
Aygaz A.Ş.	-	256.864
Other	8.194	15.077
	<b>594.574</b>	<b>3.750.370</b>
Less: Unearned financial income	(9.647)	(85.816)
<b>Total</b>	<b>584.927</b>	<b>3.664.554</b>

Borrowings:	2006	2005
Yapı ve Kredi Bankası A.Ş.	-	4.051.968
<b>Total</b>	<b>-</b>	<b>4.051.968</b>

Due to related parties:	2006	2005
Koç Sistem A.Ş.	327.790	73.964
Ram Dış Ticaret A.Ş.	313.719	112.228
Palmira Turizm Ticaret A.Ş.	255.588	237.943
Birmot Birleşik Motor San. ve Tic. A.Ş.	231.810	114.287
Beko Ticaret A.Ş.	188.960	52.235
Setur Servis Turistik A.Ş.	177.256	93.117
Koçtaş Yapı Marketleri San. ve Tic. A.Ş.	117.370	136.735
Ram Sigorta Aracılık Hizmetleri A.Ş.	96.635	128.937
Otokoç Otomotiv Tic. ve San. A.Ş.	80.203	-
Birleşik Oksijen Sanayi Gazlar A.Ş.	76.722	101.647
Arçelik A.Ş.	47.896	-
Koç Holding A.Ş.	46.128	33.997
Entek Elektrik Üretimi A.Ş.	-	176.139
Kofisa S.A.	(**)	919.958
Other	141.496	183.808
Less: Unrealised credit financial charges	(44.911)	(33.382)
<b>Total</b>	<b>2.056.662</b>	<b>2.331.613</b>

ii) Significant sales and purchase transactions with related parties for the years ended 31 December:

Product and service sales:	2006	2005
Ram Dış Ticaret A.Ş.	27.916.035	22.165.822
Koç Finansal Kiralama A.Ş.	6.117.967	6.155.966
Ford Otomotiv Sanayi A.Ş.	605.672	5.046.147
Döktaş Ticaret ve San. A.Ş.	317.700	-
Otokoç Otomotiv Tic. ve San. A.Ş.	136.800	-
RMK Gemi Yapım Sanayi A.Ş.	82.042	37.740
Otoyol Sanayi A.Ş.	68.400	-
Aygaz A.Ş.	67.757	2.079.361
Beldeyama Motorlu Vasıtalar San. A.Ş.	67.700	-
Koç Statoil Gaz A.Ş.	38.713	409.847
Other	35.824	158.009
<b>Total</b>	<b>35.454.610</b>	<b>36.052.892</b>

Purchases of property plant and equipment:	2006	2005
Koç Sistem A.Ş.	372.540	303.876
Otokoç Otomotiv Tic. ve San. A.Ş.	139.872	44.100
Birmot Birleşik Motor San. ve Tic. A.Ş.	69.034	13.751
Other	13.811	20.750
<b>Total</b>	<b>595.257</b>	<b>382.477</b>



Inventory purchases:	2006	2005
Ram Dış Ticaret A.Ş.	3.516.460	3.134.608
Kofisa S.A.	2.021.079	2.156.607
Beko Ticaret A.Ş.	1.682.161	433.775
Koçtaş Yapı Marketleri San. ve Tic. A.Ş.	632.069	282.634
Birleşik Oksijen Sanayi Gazlar A.Ş.	608.205	581.579
Opet Petrolcülük A.Ş.	211.045	407.400
Otomotiv Lastikleri Tevzi A.Ş.	162.759	377.389
Akpa Day. Tük. LPG ve Akaryakıt Ür. Paz. A.Ş.	145.355	160.597
Sanal Merkez Ticaret A.Ş.	99.067	39.888
Migros Türk T.A.Ş.	91.525	45.701
Arçelik A.Ş.	40.590	-
Other	49.399	93.554
<b>Total</b>	<b>9.259.714</b>	<b>7.713.732</b>

Services received:	2006	2005
Ram Dış Ticaret A.Ş.	6.657.880	7.035.195
Koç Holding A.Ş.	1.361.074	1.115.692
Palmira Turizm Ticaret A.Ş.	1.074.365	567.219
Entek Elektrik Üretimi A.Ş.	1.059.764	1.486.342
Ram Sigorta Aracılık Hizmetleri A.Ş.	849.744	786.356
Setur Servis Turistik A.Ş.	701.008	945.458
Koç Sistem A.Ş.	352.042	53.376
Birmot Birleşik Motor San. ve Tic. A.Ş.	185.544	78.387
Koçnet Haberleşme Teknoloji ve İletişim Hizmetleri A.Ş.	139.674	102.748
Otoyol Sanayi A.Ş.	79.612	60.958
Otokoç Otomotiv Tic. ve San. A.Ş.	119.131	75.228
Döktaş Tic. ve San. A.Ş.	-	84.000
Other	54.860	94.340
<b>Total</b>	<b>12.634.698</b>	<b>12.485.299</b>

iii) Financial income and expenses with related parties for the years ended 31 December:

Interest income:	2006	2005
Yapı ve Kredi Bankası A.Ş.	164.165	4.852
Koçbank A.Ş.	(*)	98.851
<b>Total</b>	<b>164.165</b>	<b>103.703</b>

Foreign exchange income:	2006	2005
Yapı ve Kredi Bankası A.Ş.	967.664	46.147
Ram Dış Ticaret A.Ş.	85.954	366.593
Kofisa S.A.	45.305	2.763
Koçbank A.Ş.	(*)	654.687
<b>Total</b>	<b>1.098.923</b>	<b>1.070.190</b>

Interest expenses:	2006	2005
Yapı ve Kredi Bankası A.Ş.	141.707	51.396
Koçbank A.Ş.	(*)	256.291
<b>Total</b>	<b>141.707</b>	<b>307.687</b>

Foreign exchange losses:	2006	2005
Yapı ve Kredi Bankası A.Ş.	1.062.039	51.351
Kofisa S.A.	160.244	25.471
Ram Dış Ticaret A.Ş.	103.548	224.687
Koçbank A.Ş.	(*)	456.880
<b>Total</b>	<b>1.325.831</b>	<b>758.389</b>

(\*) Koçbank A.Ş. merged with Yapı ve Kredi bankası A.Ş. on 2 October 2006. Thus, transactions with Koçbank A.Ş. as of 31 December 2006 have been to presented under Yapı ve Kredi Bankası A.Ş.

(\*\*) As Koç Holding A.Ş. sold its shares in Kofisa S.A., Kofisa S.A. is not considered as a related party as of 31 December 2006. Transaction balances represent transactions in the first ten months of 2006.

Remuneration of directors and key management personnel during the year ended 31 December 2006 amounts to YTL 4.419.689 (2005: YTL 3.073.466).





## NOTE 10 - OTHER RECEIVABLES AND PAYABLES

Short-term Other Receivables	2006	2005
Prepaid corporation tax (Note 41)	580.036	1.043.074
Receivables from personnel	689	20.236
Other receivables	16.036	34.479
<b>Total</b>	<b>596.761</b>	<b>1.097.789</b>

## NOTE 11 - BIOLOGICAL ASSETS

The Company's operations do not involve any biological assets.

## NOTE 12 - INVENTORIES

	2006	2005
Raw materials	16.498.564	16.521.014
Finished goods	25.057.886	5.003.531
Goods in transit	38.142.841	9.830.307
Semi-finished goods	4.372.913	4.486.746
Trade goods	7.832.917	5.748.511
<b>Total</b>	<b>91.905.121</b>	<b>41.590.109</b>

## NOTE 13 - CONSTRUCTION CONTRACT RECEIVABLES AND PROGRESS BILLING

The Company has no construction contract receivables and construction progress billings.

## NOTE 14 - DEFERRED TAX ASSETS AND LIABILITIES

### Deferred Taxes

The Company recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported under CMB Accounting Standards and their statutory tax financial statements.

Deferred income taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in future periods under the liability method using a principal tax rate of 20% (31 December 2005: 30%).

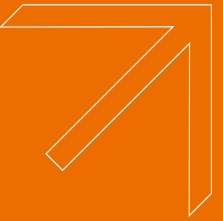
Details of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 31 December 2006 and 2005 using the enacted future tax rates are as follows:

Cumulative Temporary Differences		Deferred tax assets / (liabilities)		
2006	2005	2006	2005	
Net difference between the tax bases and the carrying amount of:				
Tangible and intangible assets	13.522.045	9.329.606	(2.080.341)	(2.798.882)
Unrealized credit finance charges	4.930.275	2.471.009	(986.055)	(741.303)
Available-for sale investment	846.754	-	(42.338)	-
Inventory	-	68.065	-	(20.419)
Other	43.960	606.478	(8.792)	(181.944)
Deferred tax liabilities		(3.117.526)	(3.742.548)	
Net difference between the tax bases and the carrying amount of:				
Trade receivables	-	1.557.582	-	467.275
Reserve for employment termination benefits	4.609.006	4.407.223	921.801	1.322.167
Expense accruals	2.882.314	2.098.436	576.463	629.531
Unearned financial income	2.398.870	3.205.730	479.774	961.719
Inventory	665.065	-	133.013	-
Deferred tax assets		2.111.051	3.380.692	
Deferred tax liabilities-net		(1.006.475)	(361.856)	

Deferred tax liability, net:

	2006	2005
1 January	361.856	1.050.928
Expense / (income) for the year	602.281	(689.072)
Financial assets fair value reserve	42.338	-
<b>31 December</b>	<b>1.006.475</b>	<b>361.856</b>





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

a) Other current assets:	2006	2005
Value Added Tax (VAT) receivables	8.606.921	2.636.359
Deductible taxes and funds	2.715.913	1.285.493
Prepaid expenses	356.244	919.622
<b>Total</b>	<b>11.679.078</b>	<b>4.841.474</b>

b) Other current liabilities:	2006	2005
Taxes and funds payable	1.811.390	1.878.066
Payables to personnel	1.690.199	2.399.641
Social security premiums payable	1.672.782	1.602.133
Deferred payables to government	636.049	1.144.858
Deferred Special Consumption Tax	209.846	-
Other	164.258	149.267
<b>Total</b>	<b>6.184.524</b>	<b>7.173.965</b>

c) Other non-current liabilities:	2006	2005
Deferred payables to government	-	636.049
<b>Total</b>	<b>-</b>	<b>636.049</b>

## NOTE 16 - FINANCIAL ASSETS

2006		2005	
YTL	%	YTL	%
<b>Available-for-sale investments</b>			
Entek Elektrik Üretimi			
Otoprodüktör Grubu A.Ş.	1.542.712	0,86%	1.972.851 0,86%
<b>1.542.712</b>		<b>1.972.851</b>	

The Company decreased the carrying value of its investment at Entek Elektrik Üretimi A.Ş. ("Entek") by YTL430.139 in the financial statements as of 31 December 2006 due to impairment on the fair value of Entek. This impairment balance has been decreased from the financial assets fair value reserve in shareholders' equity.

## NOTE 17 - GOODWILL/NEGATIVE GOODWILL

None (2005: None).

## NOTE 18 - INVESTMENT PROPERTY

The Company has no investment property.

## NOTE 19 - PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment and related accumulated depreciation during the year ended 31 December 2006 is as follows:

	1 January 2006	Additions	Disposals	Transfers	31 December 2006
<b>Cost:</b>					
Land	5.370.676	-	-	-	5.370.676
Land improvements	4.287.615	-	-	123.053	4.410.668
Buildings	31.345.034	-	-	375.866	31.720.900
Machinery and equipment	74.582.892	1.643.741	(147.627)	427.507	76.506.513
Motor vehicles	3.469.758	571.406	(465.784)	-	3.575.380
Furniture and fixtures	15.940.809	365.370	(1.740)	-	16.304.439
Leasehold improvements	1.089.375	-	-	5.314	1.094.689
Construction-in-progress	43.118	887.898	-	(872.886)	58.130
Advances given	8.127	187.447	-	(173.222)	22.352
	<b>136.137.404</b>	<b>3.655.862</b>	<b>(615.151)</b>	<b>(114.368)</b>	<b>139.063.747</b>
<b>Accumulated depreciation:</b>					
Land improvements	1.471.753	154.847	-	-	1.626.600
Buildings	12.830.852	1.073.104	-	-	13.903.956
Machinery and equipment	61.711.400	3.023.608	(147.627)	-	64.587.381
Motor vehicles	3.106.097	126.852	(416.801)	-	2.816.148
Furniture and fixtures	14.537.616	372.581	(62)	-	14.910.135
Leasehold improvements	1.082.375	7.681	-	-	1.090.056
	<b>94.740.093</b>	<b>4.758.673</b>	<b>(564.490)</b>	<b>-</b>	<b>98.934.276</b>
<b>Net book value</b>	<b>41.397.311</b>				<b>40.129.471</b>



Movements in property, plant and equipment and related accumulated depreciation during the year ended 31 December 2005 is as follows:

	1 January 2005	Additions	Disposals	Transfers	31 December 2005
<b>Cost:</b>					
Land	5.370.676	-	-	-	5.370.676
Land improvements	4.263.645	23.970	-	-	4.287.615
Buildings	31.309.606	-	-	35.428	31.345.034
Machinery and equipment	87.334.042	1.509.954	(16.066.343)	1.805.239	74.582.892
Motor vehicles	3.370.862	170.091	(71.195)	-	3.469.758
Furniture and fixtures	15.357.504	492.328	-	90.977	15.940.809
Leasehold improvements	1.089.375	-	-	-	1.089.375
Construction in progress	-	1.026.116	-	(982.998)	43.118
Advances given	60.831	915.472	-	(968.176)	8.127
	<b>148.156.541</b>	<b>4.137.931</b>	<b>(16.137.538)</b>	<b>(19.530)</b>	<b>136.137.404</b>
<b>Accumulated depreciation:</b>					
Land improvements	1.296.583	175.170	-	-	1.471.753
Buildings	11.578.350	1.252.502	-	-	12.830.852
Machinery and equipment	73.167.383	4.608.779	(16.064.762)	-	61.711.400
Motor vehicles	3.029.107	137.480	(60.490)	-	3.106.097
Furniture and fixtures	14.046.149	491.467	-	-	14.537.616
Leasehold improvements	1.028.794	53.581	-	-	1.082.375
	<b>104.146.366</b>	<b>6.718.979</b>	<b>(16.125.252)</b>	<b>-</b>	<b>94.740.093</b>
<b>Net book value</b>	<b>44.010.175</b>				<b>41.397.311</b>

Current year depreciation expense has been allocated to cost of sales by YTL 3.276.631 (2005: YTL 5.139.145), to research and development expenses by YTL 838.231 (2005: YTL 500.831), to general administrative expenses by YTL 718.537 (2005: YTL 1.101.494) and to sales and marketing expenses by YTL 140.203 (2005: YTL 144.729).

## NOTE 20 - INTANGIBLE ASSETS

Intangible assets comprise acquired intellectual property and computer software. Movement in intangible assets and related accumulated amortisation during the year ended 31 December 2006 is as follows:

	1 January 2005	Additions	Disposals	Transfers	31 December 2005
<b>Cost:</b>					
Intangible assets	2.007.437	203.962	-	114.368	2.325.767
<b>Accumulated amortisation:</b>					
Intangible assets	(1.498.885)	(214.929)	-	-	(1.713.814)
<b>Net book value</b>	<b>508.552</b>				<b>611.953</b>

Movement in intangible assets and related accumulated amortisation during the year ended 31 December 2005 is as follows:

	1 January 2005	Additions	Disposals	Transfers	31 December 2005
<b>Cost:</b>					
Intangible assets	1.777.784	210.123	-	19.530	2.007.437
<b>Accumulated amortisation:</b>					
Intangible assets	(1.328.665)	(170.220)	-	-	(1.498.885)
<b>Net book value</b>	<b>449.119</b>				<b>508.552</b>

## NOTE 21 - ADVANCES RECEIVED

	2006	2005
Other advances received	3.627.854	26.911.292
<b>Total</b>	<b>3.627.854</b>	<b>26.911.292</b>

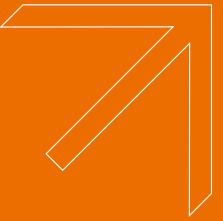
Advances received constitute of advance payments received from customers for future sales.

## NOTE 22 - RETIREMENT PLANS

The Company does not sponsor any retirement plans, as such, financial statement do not include any liability on retirement plans.

## NOTE 23 - PROVISIONS

	2006	2005
<b>Short-term provisions</b>		
Warranty provision	1.490.699	1.375.203
Other	41.759	4.668
<b>Total</b>	<b>1.532.458</b>	<b>1.379.871</b>
<b>Long-term provisions</b>		
Provision for employment termination benefits	4.609.006	4.407.223
Provision for unused vacation of employees	1.193.552	525.169
<b>Total</b>	<b>5.802.558</b>	<b>4.932.392</b>



## Provision for employment termination benefits

There are no agreements for pension commitments other than the legal requirement 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 YTL1.857,44 for each year of service as of 31 December 2006 (31 December 2005 : YTL1.727,15).

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 CMB 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:

	2006	2005
Discount rate (%)	5,71	5,49
Turnover rate to estimate the probability of retirement (%)	5	4

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. Since the Company calculates provision for employment termination benefits every six months, the maximum amount of YTL1.960,69, which is effective from 1 January 2007 (1 January 2006: YTL1.770,62) has been taken into consideration in calculations.

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

	2006	2005
1 January	4.407.223	3.941.085
Increase during the year	1.134.518	1.371.060
Paid during the year	(932.735)	(904.922)
	<b>4.609.006</b>	<b>4.407.223</b>

## Provision for warranty expense

The Company provides one year warranty for the Land Rover vehicles and two years warranty for midi-busses sold. The Company has no commitments for armoured vehicles and trailers. Therefore, warranty expense provision has been recorded for the vehicles under guarantee as of the balance sheet date. The movement of the warranty expense provision is as follows:

	2006	2005
1 January	1.375.203	1.193.967
Increase during the year (Note 37)	4.372.066	3.168.782
Paid during the year	(4.256.570)	(2.987.546)
<b>31 December</b>	<b>1.490.699</b>	<b>1.375.203</b>

## NOTE 24 - MINORITY INTEREST

As the Company does not prepare consolidated financial statements, there is no minority interest.

## NOTE 25 - CAPITAL/ADJUSTMENT TO SHARE CAPITAL

### CAPITAL

The shareholding structure of the Company at 31 December 2006 and 2005 are as follows:

Shareholders	2006		2005	
	YTL	%	YTL	%
Koç Holding A.Ş.	10.300.952	42,92	10.300.952	42,92
Ünver Holding A.Ş.	5.954.944	24,81	5.954.944	24,81
Other	7.744.104	32,27	7.744.104	32,27
<b>Total</b>	<b>24.000.000</b>	<b>100,00</b>	<b>24.000.000</b>	<b>100,00</b>
Adjustment to share capital	52.743.030		52.743.030	
<b>Total</b>	<b>76.743.030</b>		<b>76.743.030</b>	



## 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:

In accordance with the Communiqué No:XI-25 Section 15 paragraph 399, the accumulated deficit amounts arising from the first application of inflation adjustment, in line with CMB's profit distribution regulations, are considered to be deductible when computing the distributable profit. The accumulated deficit will first be netted-off from net income and retained earnings, and the remaining amount of deficit from extraordinary reserves, legal reserves and adjustment to share capital.

Net income of the financial statements prepared in accordance with Communiqué must be distributed as a minimum of 20% of total distributable profit. This distribution may be made either as cash, as a pro-rata shares or as a combination of both, depending on the decision taken at the General Assembly of the Company.

The Company distributed dividends amounting to YTL9.600.000 from prior period income during 2006.

For the purposes of profit distribution in accordance with related CMB regulations, items of statutory shareholders' equity such as share capital, share premium, legal reserves, other reserves, special reserves and extraordinary reserves, are presented at their historical nominal amounts. The difference between the inflated and historical amounts of these items is presented in shareholders' equity cumulatively as restatement difference.

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

In accordance with the Communiqué No:XI-25, at 31 December 2006 and 2005, the shareholders' equity schedule, based on which the dividend will be distributed is as follows:

	2006	2005
Share capital	24.000.000	24.000.000
Legal reserves	4.544.498	3.208.566
Extraordinary reserves	1.449.218	4.379.445
Financial assets fair value reserve	898.363	1.370.840
Inflation adjustments to shareholders' equity	63.693.113	63.693.113
Net income for the period	41.412.509	9.355.484
Accumulated loss	(1.064.518)	(2.414.297)
<b>Total shareholders' equity</b>	<b>134.933.183</b>	<b>103.593.151</b>

At 31 December 2006 and 2005, the restated amounts and the shareholders' equity restatement differences of the aforementioned nominal values are as follows:

	2006		
	Historical value	Restated value	Restatement difference
Share capital	24.000.000	76.743.030	52.743.030
Legal reserves	4.544.498	15.494.581	10.950.083
<b>Total</b>	<b>28.544.498</b>	<b>92.237.611</b>	<b>63.693.113</b>

	2005		
	Historical value	Restated value	Restatement difference
Share capital	24.000.000	76.743.030	52.743.030
Legal reserves	3.208.566	14.158.649	10.950.083
<b>Total</b>	<b>27.208.566</b>	<b>90.901.679</b>	<b>63.693.113</b>

Composition of prior periods' earnings and dividends (per statutory financial statements and not adjusted for inflation) at 31 December 2006 and 2005:

	2006	2005
Legal reserves	7.378.075	6.042.143
Extraordinary reserves	26.911.996	27.929.290
<b>Total</b>	<b>34.290.071</b>	<b>33.971.433</b>

Historical amounts of dividends distributed during year from previous period's net income per statutory financial statements	9.600.000	14.400.000
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## NOTE 29 - FOREIGN CURRENCY POSITION

The following table illustrates the Company's foreign currency risk as a result of foreign currency position. Assets and liabilities denominated in foreign currency at 31 December 2006 and 2005 are as follows:

	2006	2005
Assets	82.045.842	67.772.606
Liabilities	(64.257.432)	(69.965.849)
<b>Net foreign currency position</b>	<b>17.788.410</b>	<b>(2.193.243)</b>





	Foreign Currency	2006		2005	
		Foreign currency amount	YTL	Foreign currency amount	YTL
<b>Assets:</b>					
Cash and cash equivalents	USD	10.251	14.408	29.601	39.719
	EUR	89.723	166.123	336.607	534.364
	GBP	6.303	17.378	146.527	338.785
			<b>197.909</b>		<b>912.868</b>
Trade receivables	USD	1.889.508	2.655.892	10.886.995	14.608.170
	EUR	23.965.702	44.372.498	17.615.724	27.964.961
	GBP	151.482	417.621	3.739.056	8.645.071
			<b>47.446.011</b>		<b>51.218.202</b>
	GBP	117.975	325.244	231.288	534.761
			<b>325.244</b>		<b>534.761</b>
Other receivables-(net)	EUR	6.446	11.935	17.501	27.782
	GBP	1.399	3.857	351.399	812.470
			<b>15.792</b>		<b>840.252</b>
Long-term trade receivables	EUR	18.396.374	34.060.886	8.986.786	14.266.523
			<b>34.060.886</b>		<b>14.266.523</b>
<b>Total foreign currency assets</b>			<b>82.045.842</b>		<b>67.772.606</b>
<b>Liabilities:</b>					
Short-term borrowings	USD	5.126.446	7.205.732	5.030.664	6.750.145
	EUR	6.081.148	11.259.246	8.621.517	13.686.658
			<b>18.464.978</b>		<b>20.436.803</b>
Trade payables	USD	2.326.923	3.270.724	545.697	732.217
	EUR	5.541.462	10.260.018	718.310	1.140.317
	GBP	10.392.055	28.649.858	7.451.111	17.227.713
			<b>42.180.600</b>		<b>19.100.247</b>
Due to related parties	EUR	-	-	579.501	919.958
			<b>-</b>		<b>919.958</b>
Advances received	USD	2.547.309	3.580.498	21.900.190	29.385.674
	EUR	16.935	31.356	77.585	123.167
	GBP	-	-	-	-
			<b>3.611.854</b>		<b>29.508.841</b>
<b>Total foreign currency liabilities</b>			<b>64.257.432</b>		<b>69.965.849</b>
<b>Net foreign currency position</b>			<b>17.788.410</b>		<b>(2.193.243)</b>

## NOTE 30 - GOVERNMENT GRANTS

In accordance with the Tax Law 5228 item 28-9 dated 16 July 2004, 40% of the research and development expenditures on technology and information research made by the Company itself with effect from 31 July 2004 are exempt from corporate tax. Such exemptions are not subject to withholding taxes.

In 2006, the Company earned an incentive amounting to YTL6.341.307 (2005: YTL5.865.327) calculated as 40% of the period's research and development expenditures of YTL2.536.523 (2005: YTL2.348.148) which will be deducted from the tax base without any withholding tax payment.

The exemption for investment incentive allowance that has been in effect for several years, and with the latest regulation, calculated as 40% of corporate tax payers' capital expenditures exceeding a certain amount, has been abolished with Corporate Income Tax Law No.5479 dated 30 March 2006.

There is no unutilized investment incentive allowance as of 31 December 2006.

## NOTE 31 - PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

a) Guarantees given at 31 December 2006 and 2005 are as follows:

	2006	2005
Letters of guarantees	80.041.965	51.068.259

b) Guarantees received as of 31 December 2006 and 2005 are as follows:

	2006	2005
Letters of guarantees	34.254.062	23.906.563
Guarantee notes	8.662.528	5.832.150
Mortgages received	7.663.000	2.563.000
Guarantee cheques	130.000	130.000
	<b>50.709.590</b>	<b>32.431.713</b>

## NOTE 32 - BUSINESS COMBINATIONS

None (2005: None).

## NOTE 33 - SEGMENT REPORTING

None (2005: None).

## NOTE 34 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the balance sheet date.

## NOTE 35 - DISCONTINUED OPERATIONS

None (2005: None).



## NOTE 36 - OPERATING INCOME

NET SALES	2006	2005
Domestic sales	178.010.919	179.289.394
Foreign sales	160.160.606	105.249.811
Gross sales	338.171.525	284.539.205
Less: Discounts	(556.075)	(526.683)
<b>Net sales</b>	<b>337.615.450</b>	<b>284.012.522</b>

Sales of the Company in number of vehicles are as follows:

	2006	2005
Trailer	1.340	1.155
Midibus	769	747
Land Rover 4X4	678	1.101
Armoured Vehicles	529	178
Minibus	464	569
<b>Total</b>	<b>3.780</b>	<b>3.750</b>

## COST OF SALES

	2006	2005
Cost of finished goods sold	214.600.350	202.978.342
Cost of trade goods sold	16.792.266	11.752.671
<b>Cost of sales</b>	<b>231.392.616</b>	<b>214.731.013</b>

## NOTE 37 - OPERATING EXPENSES

	2006	2005
Sales and marketing expenses	42.029.680	32.015.384
General administrative expenses	15.684.753	15.185.510
Research and development expens	6.669.929	5.870.530
<b>Total operating expenses</b>	<b>64.384.362</b>	<b>53.071.424</b>

Personnel expenses totaling YTL 40.004.637 (2005: YTL 37.873.103) have been allocated to cost of sales by YTL 25.248.576 (2005: YTL 23.861.324), to sales and marketing expenses by YTL 6.967.432 (2005: YTL 3.920.352), to general administrative expenses by YTL 4.774.001 (2005: YTL 7.744.874) and to research and development expenses by YTL 3.014.628 (2005: YTL 2.346.553).

## NOTE 38 - OTHER INCOME/EXPENSE AND PROFIT/LOSS

	2006	2005
Foreign exchange gains	30.755.488	15.379.786
Due date charges	6.659.627	3.016.927
Grants received for research and development projects	847.900	1.708.320
Interest income	427.508	606.497
Income from sale of tangible assets	107.202	28.525
Income from service charges to customers	80.232	176.781
Reversed provisions	-	436.240
Other	644.730	481.868
<b>Total</b>	<b>39.522.687</b>	<b>21.834.944</b>

	2006	2005
Foreign exchange losses	23.860.733	20.992.568
Provision for unused vacation	668.383	525.169
Doubtful provision expense (Note 7)	109.995	6.228.790
Bank commissions	117.848	656.465
Impairment of available-for-sale investments	-	83.490
Other	154	2.640
<b>Total</b>	<b>24.757.113</b>	<b>28.489.122</b>



## NOTE 39 - FINANCIAL EXPENSE

	2006	2005
Foreign exchange losses/(gains) on bank loans	2.276.200	(4.456.600)
Interest expense	3.043.732	1.722.937
<b>Total</b>	<b>5.319.932</b>	<b>(2.733.663)</b>

## NOTE 40 - NET MONETARY POSITION PROFIT/LOSSES

With the decision taken on 17 March 2005, the CMB has announced that the application of inflation accounting is no longer required for companies operating in Turkey during 2005 (Note 2).

Since inflation accounting has not been performed since 1 January 2005, there is no gain/loss on net monetary position for the period ended 31 December 2006.

## NOTE 41 - TAXES ON INCOME

	2006	2005
Prepaid taxes	9.849.360	4.666.232
Less: Corporation taxes payable	(9.269.324)	(3.623.158)
<b>Prepaid taxes-net (Note 10)</b>	<b>580.036</b>	<b>1.043.074</b>

Corporate Income Tax Law has been changed with the law numbered 5520 dated 13 June 2006. The Corporate Income Tax Law numbered 5520 has come into effect starting from 1 January 2006. The corporation tax rate of the fiscal year 2006 is 20% (2005: 30%). Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, exempt income (exemption for participation in subsidiaries, exemption for investment incentive allowance and etc.) and allowances (such as research and development expenditure allowances). No other tax liabilities arise other than the event of dividend distribution (except for the 19,8% withholding taxes paid in the event of the utilization of investment incentive allowance within the scope of Income Tax Law 61st temporary clause).

Dividends paid to non-resident corporations, which have a representative office in Turkey and resident corporations are not subject to withholding taxes. Otherwise, dividends paid are subject to withholding tax at a rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is declared by 10th and payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

In accordance with Tax Law No.5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" published in the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish lira. In accordance with the Law in question, the cumulative inflation rate for the last 36 months and the inflation rate for the last 12 months must exceed 100% and 10% respectively (SIS WPI increase rate). The Company has not applied restatement for inflation in its statutory financial statements as of 31 December 2006 in accordance with Tax Procedure Law since the due requirements for restatement for inflation have not been materialised.

In Turkey, there is no procedure for final and definitive agreement on tax assessment. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate.

In tax reviews, authorized bodies can review the accounting records for the past five years and if errors are detected, tax amounts may change due to tax assessment.

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

There are numerous exemptions in the Corporate Tax Law concerning the corporations.

### **Exemption for gain on participation in domestic subsidiaries**

Dividends obtained from Turkish resident corporations and dividends received by founders' shares and bonus shares (dividends from investment fund participation certificates are excluded), and investment partnership shares are exempt from corporate tax.

### **Exemption for gain on sale of investment equity and real property**

75% portion of the gains arisen on the sale of preferential rights, usufruct shares and founding shares from investment equity and real property which has remained in assets for more than two full years are exempt from corporate tax. To be entitled to the exemption, the relevant gain is required to be held in a fund account in shareholder's equity and must not be withdrawn for a period of 5 years. The sales proceeds should be collected within 2 years after the date of sale.

### **Exemption for investment incentive allowance**

The exemption for investment incentive allowance that has been applied for several years and latest calculated as 40% of corporate tax payers' capital expenditures exceeding a certain amount, has been abolished with Corporate Income Tax Law No.5479 dated 30 March 2006. On the other hand, according to the law and the temporary clause number 69 added to Income Tax Law,

- unused investment incentive allowance related to the ongoing projects at 31 December 2005,
  - investment started after 1 January 2006, within the scope of investment incentive share certificates granted prior to 24 April 2003 in accordance with the appendices 1,2,3,4,5, and 6 of Income Tax Law numbered 193 prior to the change with the law numbered 4842 dated 9 April 2003,
  - investment allowances being granted before 1 January 2006, which presents an economic and technical integrity with the investments, in accordance with the Income Tax Law numbered 193 abolished article No.19 of Corporate Income Tax Law numbered 193.
- can be utilised for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on 31 December 2005 (including the corporate tax rate in accordance with Corporation Tax Law numbered 5422 and the related articles of Income Tax Law).



Once one of the above alternatives has been chosen, the application cannot be changed. Corporations that choose to utilise this right will be subject to the previous legislation's tax rates.

In addition to exemptions explained above, tax deductions specified in Corporation Tax Law articles 14, and Income Tax Law article 40, are also considered in the assessment of the corporation tax base.

The taxation on income for the periods ended 31 December 2006 and 2005 are summarised as follows:

	2006	2005
Total taxation on income		
- Current year corporation tax	9.269.324	3.623.158
- Deferred tax expense / (income)	602.281	(689.072)
<b>Total taxation on income</b>	<b>9.871.605</b>	<b>2.934.086</b>

Reconciliation of net income before tax to corporate taxation expense is as follows:

	2006	2005
<b>Income before tax</b>	<b>51.284.114</b>	<b>12.289.570</b>
<b>The effect of the adjustments made on the statutory financials in accordance with the CMB Accounting Standards:</b>		
Current year impact of inflation adjustment on the non-monetary items made in the previous periods	(416.048)	1.691.291
Provision for employee termination benefits	(1.358.293)	(985.086)
Impairment on available-for-sale investment	-	83.490
Unrealized credit finance (income)/charges - net	(3.802.981)	39.881
Provision of unused vacation rights	668.383	525.169
Cut-off adjustment made on revenue recognition	(503.960)	503.960
Other	626.094	(606.478)
<b>Total effect of adjustments</b>	<b>(4.786.805)</b>	<b>1.252.227</b>
<b>Statutory income before tax</b>	<b>46.497.309</b>	<b>13.541.797</b>
Disallowable expenses	3.253.246	2.908.576
Deductible expenses	(867.412)	(976.325)
R&D incentive utilised during the period	(2.536.523)	(2.346.131)
Investment incentive utilized during the period	-	(1.050.722)
<b>Corporate tax base</b>	<b>46.346.620</b>	<b>12.077.195</b>
<b>Corporation tax expenses:</b>	<b>9.269.324</b>	<b>3.623.158</b>

## NOTE 42 - EARNINGS PER SHARE

Earnings per share is calculated by dividing net profit by the weighted average number of shares that have been outstanding during the year concerned.

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. Bonus shares are not considered in the weighted average number of shares computations.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue.

	2006	2005
Net profit for the period (YTL)	41.412.509	9.355.484
Weighted average number of shares	24.000.000.000	24.000.000.000
Earnings per share (Ykr)	0,173	0,039

## NOTE 43 - STATEMENTS OF CASH FLOWS

Statement of cash flows has been presented within primary financial statements.

## NOTE 44 - OTHER MATTERS

### Convenience translation into English

The accounting principles described in Note 2 (defined as CMB Accounting Standards) to the accompanying financial statements differ from International Financial Reporting Standards issued by the International Accounting Standards Board with respect to the application of IAS 29 - "Financial Reporting in Hyperinflationary Economies" and IAS 1 - "Presentation of 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.



# Financial Ratios



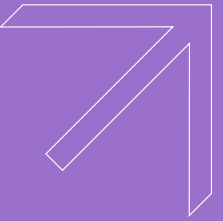
OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## STATEMENTS OF FINANCIAL RATIOS

AT 31 DECEMBER 2006

(Amounts expressed in New Turkish lira ("YTL") unless otherwise indicated)

FINANCIAL RATIOS (%)	2006	2005
<b>Liquidity Ratios</b>		
1- Current Ratio (Circulation Assets / Short Term Liabilities)	1.56	1.52
2- Liquidity Ratio (Circulation Assets / Inventories / Short Term Liabilities)	0.77	1.09
<b>Financial Structure Ratios</b>		
1- Ratio of Total Debts to Assets (Short Term Liabilities / Long Term Liabilities / Total Assets)	0.48	0.50
2- Equity / Total Liabilities (Equity / Short Term Liabilities + Long Term Liabilities)	1.10	0.99
<b>Operational Profitability Ratio</b>		
1- Profitability of Sales (Profit of the Term / Net Sales)	0.15	0.04
2- Profitability of Assets (Profit of the Term / Total Sales)	0.20	0.06
3- Profitability of Equity (Net Profit of the Term / Equity)	0.31	0.09



## 1. Corporate Management Principles Compliance Declaration

The principles that give quality to the corporate management have been adopted and many of them are currently being implemented by the Company. The principles seek disclosure to the public, ensuring transparency and taking necessary actions regarding the resolutions and transactions concerning the shareholders and other stakeholders as well as the Board of Directors in accordance with the Corporate Management Principles.

The resolution of the Capital Market Board dated 10.12.2004 and no. 48/1588 proposes that the corporations listed in the Istanbul Stock Exchange (the ISE) make a declaration as to their compliance with the Corporate Management Principles in their annual reports and, if any, web sites, starting from the annual report 2004. Accordingly, Otokar Otobüs Karoseri Sanayi A.Ş. has added the information about the compliance with the following principles to the Annual Report 2006. The COMPLIANCE REPORT is given below for your information. You can also access the report via the web site of the Company at [www.otokar.com.tr](http://www.otokar.com.tr).

## SECTION I - SHAREHOLDERS

### 2. Relationship with Shareholders Unit

At Otokar Otobüs Karoseri Sanayi A.Ş., relationships with the shareholders are handled by the Finance/Accounting Department. Activities carried out by the Department include the following:

- Promoting the Company to individual and corporate investors at home and abroad and informing the potential investors;

Mr. Hüseyin Odabaş and Ms. Yasemin Orhon are in charge of the subject-matter, who can be contacted via e-mail [arf@otokar.com.tr](mailto:arf@otokar.com.tr) or phone number (0264) 229 22 44 / extension 411.

- Convening the general meeting of shareholders, preparing the documents available to the shareholders, sending the minutes to the requesters;

- Informing the shareholders;

- Sending the Special Situation Disclosures to the ISE and the Capital Market Board (the CMB) pursuant to the Communiqué Serial VIII, No. 39 of the CMB;

- Making the preparations for the general meeting, preparing the necessary documentation, obtaining the prior permissions for and presenting to the approval of the general meeting of the amendments to the articles of association;

- Monitoring and informing to the concerned departments of any amendments to the Capital Market Law and the relevant legislation;

- Paying dividends to the shareholders;

- Preparing quarterly financial statements and reports.

Mr. Hüseyin Odabaş and Mr. İrfan Özcan are in charge of such transactions, who can be contacted via e-mail [arf@otokar.com.tr](mailto:arf@otokar.com.tr) or phone number (0264) 229 22 44 / extension 410.

### 3. Use of Right of Information by the Shareholders

11 shareholders who attended the last general meeting by getting their names written on the list of attending shareholders were informed about financial and administrative issues. The number of shareholders who came personally to the Company and requested information and who used their right of receiving gratis shares and the number of transactions during the period is 4. An Investment Meeting was held for the Intermediary Analysts which were attended also by the General Manager and the top executives during the year. In addition, the Finance Department held 32 one to one meeting with the Intermediary Analysts.

An "Investors Relations" section and related links as well as information about access to the ISE data have been added to the web site of the Company.

The articles of association do not allow making a request for appointment of a private auditor as a personal right. We haven't received any request from the shareholders for this so far. The transactions of the Company are periodically audited by an Independent External Auditor appointed by the general meeting (PriceWaterhouseCoopers) and the Auditors elected by the general meeting.

### 4. Information about the General Meetings

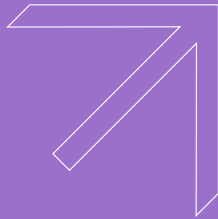
Only Annual General Meeting of Shareholders was held during 2006. Quorum was present at the general meeting. In addition, representatives of the media and the various intermediary firms as well as persons who wanted to attend the meeting as observer were allowed to attend the meeting.

Invitation to the general meeting is done by the Board of Directors in accordance with the provisions of the Turkish Commercial Code, the Capital Market Law and the articles of association. When the Board of Directors takes a resolution to convene the general meeting, the same is notified to the ISE and the CMB for disclosure to the public.

In addition, the place and agenda of the general meeting, any draft amendments to the articles of association, and a form of proxy are advertised on 2 newspapers circulating across the country at latest 15 days prior to the general meeting. The advertisement also states where the independently audited financial statements of the Company can be inspected.

The shareholders have the right to ask questions and express their opinions about the issues at the general meeting, which is held in the presence of a representative of the Ministry of Industry and Commerce. Therefore, the Chairing Board allows the shareholders to use their right of asking questions, making proposals about the issues in the agenda, and speaking about their proposals at the general meeting.

The minutes of the general meeting are broadcast on the web site. In addition, the minutes are available to the inspection of the shareholders at the head office, and one copy of the minutes is given to the shareholders at their request.



What the Company can do is detailed in the article 4 - "Objective and Subject" of the articles of association. Therefore, the Company may not do any other thing it wishes, unless the article is amended by the general meeting. Issues such as merger, takeover or division are proposed by the Board of Directors and resolution on such issues taken by the General Meeting. As provided in the respective article of the Articles of Association approved by the General Meeting, the Company may buy, sell, build, lease and let lease and create mortgage, lien, pledge and other real rights on real properties of any kind. You can access to the final version of the Articles of Association at [www.otokar.com.tr](http://www.otokar.com.tr).

The minutes of the General Meetings and the lists of presents for the previous years are available at the head office. You can also access to the minutes of the General Meetings for the last 3 years at our web site.

## 5. Voting and Minority Rights

The articles of association do not provide a privilege as to the use of the voting rights.

The voting rights are used in accordance with the provisions of the article 18 of the articles of association which deals with the representation and voting at the general meeting. Regulations of the Capital Market Board as to voting by proxy are observed.

The articles of association include provisions as to representation of the minority shareholders in the management and procedure for casting accumulated votes.

## 6. Profit Distribution Policy and Timing

No privilege has been given as to receiving proceeds from and distributing the profit. The article 24 of the articles of association applies regarding the "Distribution of Profit". Of the distributable profit computed by taking into consideration the long term strategies, investment and financing plans and profitability of the Company and the provisions of the Communiqués issued by the CMB, minimum 50% (partly cash and partly gratis) is considered distributable in cash (however, where statutory requirements occur, no cash dividend payment is done).

Profit distributions are subject to the relevant regulations of the CMB, to the approval of the General Meeting, and to the statutory times. Pursuant to the profit distribution policy, the dividends are allocated equally to all shares existing in the account period.

Dividend payments done by the Company in recent years in comparison with the issued capital are as follows:

YEARS	ISSUED CAPITAL (YTL)	% DIVIDEND BY ISSUED CAPITAL	AMOUNT OF DIVIDEND PAID (YTL)
FROM PROFIT 1998	700.000	%50,00	350.000
FROM PROFIT 1999	2.356.600	%88,65	2.089.150
FROM PROFIT 2000	4.713.200	%100,00	4.713.200
FROM PROFIT 2001	7.069.800	%65,00	4.595.370
FROM PROFIT 2002	7.834.774	%55,50	4.348.299
FROM PROFIT 2003	24.000.000	No dividend paid as profit of the year applied to previous year losses resulting from application of IFRS.	
FROM PROFIT 2004	24.000.000	%60,00	14.400.000
FROM PROFIT 2005	24.000.000	%40,00	9.600.00

## 7. Transfer of Shares

The articles of association do not contain procedures that make transfer of shares by the shareholders freely or provisions that restrict share transfers.

## SECTION II - DISCLOSURE TO PUBLIC AND TRANSPARENCY

### 8. Company's Disclosure Policy

Objective of the Company is to disclose accurate, complete and understandable information to the concerned parties on a timely manner in accordance with the principle of public disclosure and transparency. Except for the commercial secrets, all information requests are considered.

However, the Company conducts works for providing information to the shareholders in line with the policies and has strategic policies on such information, documents and records. In addition, procedures have been established about relations with the media, public meetings, and the like issues.

Communication with the media is handled by the Corporate Communication Unit. Information can be obtained from Ms. Beril Aksoy Gönüllü via e-mail [kyl@otokar.com.tr](mailto:kyl@otokar.com.tr) or phone number (0216) 489 29 50 / extension 268.

The unit in charge of public disclosure is the Finance/Accounting Department. Necessary information and documents are disclosed to the public. Mr. Hüseyin Odabaş and Mr. İrfan Özcan can be contacted in this regard via e-mail [arf@otokar.com.tr](mailto:arf@otokar.com.tr) or phone number (0264) 229 22 44 / extension 410.



## 9. Special Situation Disclosures

During 2006, the Company made 11 special situation disclosures. No situation occurred about which the CMB and the ISE requested additional disclosure or clarification. Since the Company is not listed in a foreign stock exchange, no Special Situation Disclosure is required to be made, other than to the CMB and the ISE. As the Company made the Special Situation Disclosures within the statutory times, the CMB has not imposed a sanction against the Company.

## 10. Company's Internet Site and its Content

The Company has an active and updated internet site. Miscellaneous information about the Company is given at the web site. Being updated according to the developments, the web site also contains a "investor relations" section which meets the minimum requirements of the CMB. The Annual Reports are provided in hardcopy and accessible via the web site at [www.otokar.com.tr](http://www.otokar.com.tr).

## 11. Disclosure of Majority Shareholder(s) in Real Person:

Apart from the majority shareholders Koç Holding A.Ş. and Ünver Holding A.Ş., there is no known shareholder who holds more than 5% of the shared capital of the Company.

The members of the Board of Directors, the executives and the shareholders holding more than 5% of the shared capital directly or indirectly disclose the transactions they executed on the capital market instruments and shares of stock of the Company and the consequences of such transactions. Therefore, there is no special situation that may affect the investor.

## 12. Disclosure of Insiders to the Public

Persons who can have access to information that may affect the value of the capital market instruments of the Company are the Directors and Executives of the Company. The name of these persons are Mr. Kudret Önen, Mr. Halil İbrahim Ünver, Mr. Alpay Bağrıaçık, Mr. Ali Tark Uzun, Mr. M. Selçuk Gezdur, Mr. Serdar Görgüç and Mr. Taylan Bilgel, the Directors, and Mr. Hüseyin Odabaş, Mr. Ali Rıza Alptekin, Mr. Murat Ulutaş, Mr. H. Basri Akgül and Mr. Mustafa Bakırcı, the executives.

Great care is given to observance of the rules related with the use of the insider information obtained by the employees so as to maintain the balance between transparency and protection of the interests of the Company.

Proprietary information obtained through employment, which is considered as commercial secret that is not desirable to be known by persons other than the persons who need such information is treated as "Company Information". Having signed a confidential information undertaking, all employees keep the company information confidential and do not use such information directly or indirectly during and after their employment at Otokar A.Ş.

## SECTION III - STAKEHOLDERS

### 13. Informing the Stakeholders

Stakeholders are kept informed about the issues concerning them through meetings and communication means if and when necessary.

### 14. Participation of Stakeholders in Management

There are some practices by which the stakeholders take part in and give opinion about any improvement works on administrative issues as subject to the procedures established in this regard. As a means of participation, the EFQM model, the self-assessment meetings attended by all white and blue collar employees, the open door meetings, the systematic meetings during which employees, suppliers and customers can voice their needs and requirements, the training programs, the researches such as "work life assessment questionnaire" are implemented based on the total quality philosophy with the aim of raising the productivity in accordance with the HR policies. From dealer meetings to factory visits by shareholders, works are conducted to raise the influence on all parts of the community. In addition, there is a system in place by which the customer requirements are learnt through the dealer and sales network and forwarded to the management for feedbacks.

### 15. Human Resources Policy

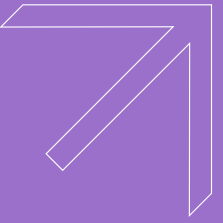
The Company has written criteria for recruitment and promotion in line with the human resources policy. Our objective as regards to the human resources process is to

- recruit correct persons for correct jobs
- pay salary according to the job, diversified according to the performance
- grant recognition and appreciation for the success
- provide equal opportunity to everybody

with a view to improving the competency of our employees continuously so as to maintain our superiority in the global competition environment. Working of the human resources systems in place to this end is governed by written procedures and announced to all employees.

The Company has established and is implementing a human resources policy. Issues such as recruitment policies, career planning, improvement and training policies for employees are addressed by Personnel Regulations. Although there are various committees on relationship with the employees, no representative has been elected or appointed. Works are conducted in accordance with the Human Resources policies established by Koç Group. Rights and working conditions of both white and blue collar employees have been secured without any discrimination or abuse. No complaint was received during the period in this regard.





## 16. Information about the Relations with Customers and Suppliers

Customer satisfaction is our primary and indispensable objective in marketing and sale of goods and services. Customer satisfaction is routinely reported and followed up.

The Company takes all measures and actions to ensure customer satisfaction before and after the sales. Requirements of the customer regarding the purchased product are met promptly, with feedback to the customer. Quality standards are maintained and warranties for high quality satisfied. Both principles and policies concerning the suppliers and satisfaction criteria relevant to the goods and services are regularly reviewed and followed up by the concerned departments.

## 17. Social Responsibility

As part of our social responsibility toward both the region where the factory is situated and the general public, we organize various events by giving due consideration to the benefit for and influence on the community of such events. In this regard, events and activities carried out during the period are detailed in the Annual Report. We didn't receive any adverse notification regarding environmental issues during the period. We have records in place, mainly the environmental impact assessment reports.

For the activities conducted for protection of the environment, the Company has been awarded:

- "Turkey-wide Environmental Service Award" by the Environmental Problems Research and Implementation Center of the Akdeniz University;
- "Industry-wide Environment Award" by the Istanbul Chamber of Industry;
- "Şehabettin Bilgisu Environment Award" by the Kocaeli Chamber of Industry;
- "Environment Award" by the Adapazarı Chamber of Commerce and Industry;
- "Cleanest Enterprise Respectful for Environment Award" by the Office of Governor of Sakarya; and
- "Friend of Environment 98 Award" by the Society for Implementation of Environmental Technology.

## SECTION IV - BOARD OF DIRECTORS

### 18. Structure, Formation and Independent Members of the Board of Directors

The current Board of Directors of the Company is formed by

Mr. Kudret Önen - Chairman;

Mr. Halil İbrahim Ünver - Vice Chairman;

Mr. Alpay Bağrıaçık - Member;

Mr. M. Selçuk Gezdur - Member;

Mr. Ali Tark Uzun - Member of Audit Committee;

Mr. Serdar Görgüç - Member and General Manager;

Mr. Taylan Bilgel - Member.

Mr. Serdar Görgüç is executive member of the Board. Following the general meeting by which the members of the Board of Directors are elected, the Board of Directors elects the chairman and vice chairman of the Board by taking a resolution. Any vacancy in the Board during the period is filled in accordance with the article 315 of the Turkish Commercial Code.

The chairman and members of the Board of Directors obtain approval from the General Meeting to perform the transactions within the business scope of the Company personally or on behalf of others and to be partner of companies performing such transactions, pursuant to the articles 334 and 335 of the Turkish Commercial Code.

### 19. Qualifications of the Members of the Board of Directors

The chairman and members of the Board of Directors are elected among the persons who are capable of delivering the highest efficiency and influence. It is essential that the members of the Board must have supreme directing capabilities delivered in accordance with the Corporate Management Principles. Members of the Board must meet certain qualifications and have sound business knowledge to function in a best way as the member of the Board of Directors.

### 20. Mission, Vision and Strategic Targets of the Company

#### *Vision*

Otokar designs and manufactures vehicles under its own brand name, as well as creating synergy with its licensors, with a remarkable added value through its own R&D capabilities. Otokar aims to ensure permanent satisfaction of its shareholders, customers and employees with a philosophy of perfection.

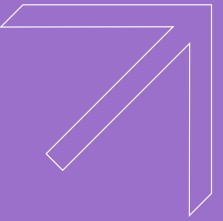
#### *Mission*

Main duty of Otokar is to design, manufacture and market commercial vehicles and various defence industry products delivering worldwide competitive qualities by meeting the customer requirements.

#### *Strategic Targets*

- Attain profitability at minimum 10% on the equities, raise the value of shares of stock and achieve growth at 14 percent in average during various periods;
- Focus on manufacturing of products we are good at with international competitiveness;
- Invest in technology to become leader or second in our industry;
- Reinforce power of our brand in the industries we are involved with and maintain a technological superiority;
- Increase exports and international activities with the aim of increasing the share of exports in our revenues.

The strategic targets established in accordance with the vision and mission are considered by the Board of Directors. The values associated with the mission and vision established by the top management and approved by the Board of Directors are detailed in the Annual Report. Works to be conducted by the concerned departments for establishment and implementation of strategic projections are proposed to the Board of Directors and followed up by the top management. The Board of Directors assesses the performance in the previous year and the targets of the top management for the next year and takes the necessary resolutions.



## 21. Risk Management and Internal Control

A risk management and internal control organization has been established for financial and administrative affairs of the Company. Function and efficiency of that organization is followed up by the Finance/Accounting Department in accordance with the capital market laws and regulations.

Financial statements of the Company are audited by an Audit Committee formed by the members of the Board of Directors. In addition, the audit function is performed by the auditors appointed by the General Meeting in accordance with the Turkish Commercial Code.

The Company conducts its business as subject to audit consisting of financial control and risk analysis performed by the Audit Group Presidency tied to the Board of Directors of Koç Holding A.Ş., one of the majority shareholders of the Company.

## 22. Powers and Responsibilities of the Directors and the Executives

Powers and responsibilities of the directors are clearly specified in the articles of association. Powers are detailed in the circular of authorized signatories.

## 23. Working Principles of the Board of Directors

Issues to be resolved by the Board of Directors are established in the agenda periodically or as the need arises under the current circumstances. The Board of Directors meets as the need arises. The Board of Directors met 12 times in 2003, 8 times in 2004, 13 times in 2005 and 9 times in 2006. Invitation and attendance to the meeting occur as the need arises in essence. There isn't a secretariat to handle the communication, but the Accounting Department prepares the agenda for the meeting and writes down and follows up the resolutions. Objections to the resolutions of the Board are written on the resolution. The resolution also contains the questions posed by any member and answers to such questions.

The agenda of the Board meeting is established by notification by the top management of the issues which require the resolution of the Board pursuant to the articles of association to the members of the Board. In addition, any member of the Board may propose an issue to the Board for passing of a resolution.

Issues to be discussed by the Board are brought together in a written agenda by the Finance Department.

The Finance Director has been assigned with the duty of establishing the agenda of the Board meetings, preparing the resolutions of the Board taken in accordance with the article 330/II of the Turkish Commercial Code, informing the members of the Board and handling the communication.

Different views voiced and opposing votes cast at the Board meetings are written on the minutes of the meeting. However, since no opposing vote was cast or different view voiced at the Board meetings in recent past, no disclosure was made to the public in this regard.

## 24. No Business Transaction and Competition with the Company

The Directors are not allowed to do business and compete with the Company. In case of a conflict of interests arising out from doing business or competing with the Company, preventive actions are taken in accordance with the legislation in effect.

## 25. Ethics

The Company takes action to ensure observance of ethical rules in general sense. Laws and regulations as well as the generally accepted ethical rules are complied with.

New regulations to this effect will be announced to the employees, the stakeholders and the public in accordance with the disclosure policy of the Company.

## 26. Number, Structure and Independence of Committees Formed at the Board of Directors

A committee has been formed to be in charge of audit in order to ensure that the Board of Directors discharges its duties and responsibilities in a sound manner.

Having formed to monitor the financial issues, to review the periodical financial statements and footnotes and to submit the Independent Auditor's Report to the approval of the Board of Directors, the committee has two members, Mr. Selçuk Gezdur and Mr. Ali Tarık Uzun.

No Corporate Management Committee has yet been established in accordance with the Corporate Management Principles. Action will be taken in accordance with the relevant legislation and the regulations to be issued by the CMB to this effect.

## 27. Financial Rights Provided to the Board of Directors

Rights provided to the members of the Board of Directors are resolved by the General Meeting. In the general meeting held on 20.04.2006, the shareholders have approved payment of a monthly remuneration to the members of the Board of Directors.

Apart from the remuneration resolved by the General Meeting, no other benefit is provided to the chairman and members of the Board of Directors. No benefit or reward is provided to the Board of Directors based on performance.

In addition, no money lent, no loan extended, no favor like loan provided through a third person or no surety given to any Director or Executive of the Company during the period.