

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

TOGETHER WITH AUDITOR'S REPORT

AUDITOR'S REPORT

To the Board of Directors of
Otokar Otobüs Karoseri Sanayi A.Ş.

1. We have audited the accompanying balance sheet of Otokar Otobüs Karoseri Sanayi A.Ş. ("the Company") at 31 December 2003 and the related statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish lira as of 31 December 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material audit misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements present fairly, in all material respects, the financial position of Otokar Otobüs Karoseri Sanayi A.Ş. at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Zeynep Uras, SMMM

Istanbul, 25 March 2004

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

FINANCIAL STATEMENTS AT 31 DECEMBER 2003

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OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

BALANCE SHEETS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

	Notes	2003	2002
ASSETS			
Current assets:			
Cash and cash equivalents	4	8,568,690	828,596
Trade receivables	5	61,525,844	44,764,363
Due from related parties	6	12,741,474	4,397,113
Inventories	7	18,785,950	22,710,713
Other current assets	8	1,798,101	2,632,011
Total current assets		103,420,059	75,332,796
Non-current assets:			
Trade receivables	5	22,863,929	48,417,473
Available for sale investments	9	2,355,847	1,537,259
Property, plant and equipment	10	39,350,828	42,862,551
Intangible assets	11	222,407	144,151
Other non-current assets		4,066	5,268
Total non-current assets		64,797,077	92,966,702
Total assets		168,217,136	168,299,498

The accompanying notes form an integral part of these financial statements

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

BALANCE SHEETS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

	Notes	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Borrowings	13	45,198,337	58,288,616
Trade payables	14	21,732,454	16,328,096
Due to related parties	6	4,438,057	4,592,391
Other current liabilities	15	10,141,907	6,491,771
Taxes on income	16	3,863,116	-
Total current liabilities		85,373,871	85,700,874
Non-current liabilities:			
Reserve for employment termination benefits	17	2,980,551	2,627,182
Negative goodwill, net	12	-	214,577
Deferred tax liabilities	16	1,896,635	5,221,858
Other non-current liabilities		204,633	345,996
Total non-current liabilities		5,081,819	8,409,613
Total liabilities		90,455,690	94,110,487
Shareholders' equity:			
Share capital	18	24,000,000	7,834,774
Adjustment to share capital	18	43,412,923	59,460,799
Total paid-in capital		67,412,923	67,295,573
Retained earnings	19	10,348,523	6,893,438
Total shareholders' equity		77,761,446	74,189,011
Total liabilities and shareholders' equity		168,217,136	168,299,498
Commitments and contingent liabilities	25		

Financial statements at and for the year ended 31 December 2003 were approved by the Board of Directors at 25 March 2004.

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

	Notes	2003	2002
Net sales	20	197,494,150	130,898,700
Cost of sales		(150,565,624)	(103,482,409)
Gross profit		46,928,526	27,416,291
Marketing and selling expenses	21	(21,008,533)	(20,062,806)
General administrative expenses	22	(11,721,999)	(11,175,689)
Research and development expenses		(2,212,075)	(2,153,156)
Other income-net		665,172	1,138,875
Operating profit / (loss)		12,651,091	(4,836,485)
Financial income-net	23	1,087,022	8,561,333
Loss on net monetary position	2a	(1,288,118)	(3,712,801)
Income before taxation on income		12,449,995	12,047
Taxation on income	16	(4,329,281)	(2,272,632)
Net income/(loss)		8,120,714	(2,260,585)
Weighted average number (000's) of shares with face value of TL1,000 value each	3	24,000,000,000	24,000,000,000
Earnings/(loss) per share (TL)	3	338.36	(94.19)

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

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

	Share capital	Adjustment to share capital	Retained earnings	Total shareholders' equity
Balances at 31 December 2001	7,069,800	46,508,588	16,623,803	70,202,191
Dividends paid	-	-	(6,544,137)	(6,544,137)
Legal merger (Note 26)	764,974	12,952,211	(925,643)	12,791,542
Net loss for the year	-	-	(2,260,585)	(2,260,585)
Balances at 31 December 2002	7,834,774	59,460,799	6,893,438	74,189,011
Dividends paid	-	-	(4,548,279)	(4,548,279)
Increase in share capital	16,165,226	(16,047,876)	(117,350)	-
Net income for the year	-	-	8,120,714	8,120,714
Balances at 31 December 2003	24,000,000	43,412,923	10,348,523	77,761,446

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

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

	Notes	2003	2002
CASH PROVIDED FROM OPERATING ACTIVITIES			
Net income / (loss)		8,120,714	(2,260,585)
Adjustments to reconcile net income / (loss) to net cash provided by operating activities:			
Depreciation and amortization		6,691,493	7,187,283
Increase in reserve for employment termination benefits		646,653	1,609,803
Increase in deferred tax liabilities		(3,325,223)	(2,157,319)
Provision for income taxes		7,485,784	3,996,758
Provision for doubtful receivables	5	347,917	134,586
Interest expense-net	23	13,446,453	32,194,495
Deferred financial expense / (income)		(839,494)	(707,774)
Fair value increase		(818,588)	(935,100)
Inflation effect on non-operating activities		(940,286)	(2,230,579)
Net cash provided by operating activities before changes in operating assets and liabilities			
Decrease in trade receivables		9,635,437	13,346,585
Changes in related party balances		(8,498,695)	(7,732,095)
Decrease / (increase) in inventories		3,924,763	(8,463,245)
Decrease in other current assets		833,910	5,091,373
Decrease / (increase) in other non-current assets		1,202	(347,008)
Increase in trade payables		5,052,561	3,844,967
Increase / (decrease) in other current liabilities		8,557,827	(1,799,442)
Decrease in other non-current liabilities		(141,363)	(428,797)
Taxes paid		(8,530,359)	(11,466,652)
Employment termination benefits	17	(293,284)	(372,642)
Inflation effect on operating activities		7,474,855	16,044,673
Net cash provided by operating activities		48,832,277	44,549,315
Investing activities:			
Purchase of property, plant and equipment		(3,134,796)	(13,724,835)
Purchase of intangible assets		(337,807)	(106,654)
Legal merger		-	12,791,542
Dividends paid		(4,548,279)	(6,544,137)
Interest received		2,941,576	5,857,589
Net cash used in investing activities		(5,079,306)	(1,726,495)
Financing activities:			
(Decrease) / increase in borrowings		(13,090,279)	2,114,117
Interest paid		(16,388,029)	(38,052,084)
Inflation effect on financing activities		(6,812,725)	(14,995,775)
Net cash used in financing activities		(36,291,033)	(50,993,742)
Inflation effect on cash and cash equivalents		278,156	1,181,681
Net increase / (decrease) in cash and cash equivalents		7,461,938	(8,110,922)
Cash and cash equivalents at the beginning of the year	4	828,596	7,757,837
Cash and cash equivalents at the end of the year	4	8,568,690	828,596

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 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 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 İstanbul, Turkey under Turkish Commercial Code. The company operates in automotive industry. Land Rover 4x4 land vehicles, armoured vehicles, minibuses and midibuses, trailers, semi-trailers and trucks comprise the majority of its production.

The registered addresses of the Company are as follows:

Head Quarters:

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

Factory:

Atatürk Cad. No 9
54580 Arifiye / Sakarya

The Company is registered with the Capital Markets Board ("CMB") and its shares have been quoted on the Istanbul Stock Exchange ("ISE") since 1996. At 31 December 2003, the shares quoted on the ISE are approximately 29.91% of the total shares. At 31 December 2003, the principal shareholders and their respective shareholdings in the Company are as follows (Note 18):

	%
Koç Holding A.Ş.	42.92
Ünver Holding A.Ş.	24.81
Others	32.27
	100.00

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). The Company maintains their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in Turkish lira in accordance with the requirements of the Capital Market Board of Turkey ("CMB"), the Turkish Commercial Code (the "TCC"), tax legislation, and the Uniform Chart of Accounts issued by the Ministry of Finance. These financial statements are based on the statutory records, which are maintained under the historical cost convention, with adjustments and reclassifications including restatement for changes in the general purchasing power of the Turkish lira, for the purpose of fair presentation in accordance with IFRS.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

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

The restatement for the changes in the general purchasing power of the Turkish lira as of 31 December 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). 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. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Such indices and conversion factors used to restate the consolidated financial statements at 31 December are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>
31 December 2003	7,382.1	1.000
31 December 2002	6,478.8	1.139
31 December 2001	4,951.7	1.491

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

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and the corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant monthly conversion factors.
- Comparative financial statements are restated by applying general inflation indices to the currency purchasing power at the latest balance sheet date.
- All items in the statement of income are restated by applying the relevant (monthly) conversion factors.
- The effect of inflation on the net monetary position of the Company is included in the statement of income as gain / (loss) on net monetary position.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company decided to prepare its financial statements in accordance with UFRS starting from the year ended 31 December 2003 regarding to Communiqué XI/25. The principal accounting policies adopted in the preparation of these financial statements are set out below:

Related parties

For the purpose of these financial statements, shareholders, key management personnel and Board members, in each case together with their families and companies controlled by or affiliated with them and associated companies are considered and referred to as related parties. A number of transactions are entered into with related parties in the normal course of business (Note 6).

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments, whose original maturity at the time of purchase is less than three months.

Trade receivables

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

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

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

Inventories

Inventories are valued at the lower of cost, restated to equivalent purchasing power at 31 December 2003 or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads. The cost of inventories is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

At 1 January 2001 the Company adopted IAS 39 and classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity. During the period the Company did not hold any investments in these categories.

Investments intended to be held for an indefinite period of time, 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 express intention of holding the investment 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 determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All investment securities are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associates with the investment. After initial recognition, investment securities that are classified as available-for-sale are measured at fair value unless fair value cannot be reliably measured (Note 9).

For investments where there is no quoted market price and where a reasonable estimate of fair value could not be determined since other methods are inappropriate and unworkable, they are stated at cost less any impairment in value.

Property, plant and equipment and related accumulated depreciation

Property, plant and equipment are carried at cost less accumulated depreciation in each case restated to equivalent purchasing power at 31 December 2003. Depreciation is provided on the restated amounts for property, plant and equipment on a straight-line basis. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

Land improvements	25 years
Buildings	25 years
Machinery and equipment	4 – 10 years
Furniture and fixtures	4 – 6 years
Motor vehicles	4 – 10 years
Special costs	4 – 5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated amounts and are included in the related income and expense accounts, as appropriate.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill / (Negative goodwill)

Goodwill / (Negative goodwill) represents the difference between the fair value of purchase consideration and the attributable share of the Company in the fair value of the underlying net assets of the company acquired. Goodwill is amortised using the straight-line method up to 5 years. The carrying value of goodwill is reviewed annually and adjusted for permanent impairment where it is considered necessary.

Intangible assets

Intangible assets comprise acquired intellectual property and computer software. 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.

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 incur.

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.

The principal temporary differences arise from the restatement of property, plant and equipment and inventory over their historical cost, accrued interest income and expenses provision for employment termination benefits, provision for doubtful receivables, tax losses carried forward and unused tax credits.

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.

Reserve for employment termination benefits

Reserve for employment termination benefits represent 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 17).

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions and translation

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at year-end. Exchange gains or losses arising on the settlement and translation of foreign currency items have been included in the statements of income.

Revenue recognition

Revenues are recognised on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commission, and exclude sales taxes (Note 20).

Other revenues earned by the Company are recognised on the following bases:

Royalty and rental income-on an accrual basis.

Interest income-on an effective yield basis.

Dividend income-when the Company's right to receive payment is established.

Provisions

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

Contingent assets and liabilities

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

Share capital and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

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 program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 counter parties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk from any individual counter party and taking collaterals against the risks (Note 25).

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 (Note 24).

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 can realize 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 year 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 uncollectability are estimated to be their fair values.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Long-term borrowings, which are denominated in foreign currencies, are translated at year-end exchange rates and accordingly their fair values approximate their carrying values.

Trading liabilities have been estimated at their fair values.

Earnings per share

Earnings per share disclosed in these statements of income are determined 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. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retroactive effect to the issuances of the shares without consideration.

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

	2003	2002
Net income / (loss)	8,120,714	(2,260,585)
Weighted average number of ordinary shares in issue	24,000,000,000	24,000,000,000
Earnings / (loss) per share (expressed in full TL per share)	338.36	(94.19)

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

Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year so that the reclassification will result in a more appropriate presentation of events or transactions.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 4 - CASH AND CASH EQUIVALENTS

	2003	2002
Cash	5,964	23,147
Banks		
- demand deposits	4,377,169	718,254
- time deposits	4,172,944	80,993
Other cash equivalents	12,613	6,202
	8,568,690	828,596

Interest rates of Turkish lira denominated time deposits vary between 25% - 26% (2002: 60 - 61%).

NOTE 5 - TRADE RECEIVABLES

	2003	2002
Trade receivables	27,576,493	9,288,030
Cheques and notes receivables	34,435,923	35,394,387
Other	-	220,601
	62,012,416	44,903,018
Less: Provision for doubtful receivables	(486,572)	(138,655)
Short term trade receivables	61,525,844	44,764,363
Cheques and notes receivables	22,863,929	48,417,473
Long term trade receivables	22,863,929	48,417,473

Movement of the provision for doubtful receivables during the year were as follows:

	2003	2002
1 January	138,655	3,906
Recoveries	(28,430)	-
Net provision for the year	401,539	152,389
Monetary gain	(25,192)	(17,640)
31 December	486,572	138,655

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 6 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

i) Balances with the related parties at 31 December:

<u>Bank balances:</u>	2003	2002
Koçbank A.Ş.		
- Demand deposits	2,773,628	322,283
- Time deposits	3,200,000	80,993
	5,973,628	403,276

<u>Due from related parties:</u>	2003	2002
Ram Dış Ticaret A.Ş.	12,740,519	4,395,260
Other	955	1,853
	12,741,474	4,397,113

<u>Bank Borrowings:</u>	2003	2002
Koçbank A.Ş.	-	2,541,082
	-	2,541,082

<u>Due to related parties:</u>	2003	2002
Kofisa Trading Company S.A.	3,111,603	2,550,254
Ram Dış Ticaret A.Ş.	504,450	795,833
Entek Elektrik Üretimi Otoprodüktör A.Ş.	156,490	142,462
Koç Holding A.Ş.	104,275	334,162
Tekersan Jant Sanayi A.Ş.	83,707	93,298
Bursa Gaz ve Ticaret A.Ş.	82,682	41,298
Otoyol Sanayi A.Ş.	70,278	42,089
Ram Sigorta Aracılık Hizmetleri A.Ş.	66,011	126,973
Setur Servis Turistik A.Ş.	63,413	46,450
Mako Elektrik Sanayi ve Ticaret A.Ş.	56,722	55,324
Bos Birleşik Oksijen San.A.Ş.	36,132	46,944
Koç Sistem A.Ş.	32,897	20,472
Other	69,397	296,832
	4,438,057	4,592,391

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(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 6 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Sales and purchases with the related parties for the years ended 31 December:

Product sales:	2003	2002
Ram Dış Ticaret A.Ş.	32,557,915	34,054,143
Koç Finansal Kiralama A.Ş.	5,544,131	5,029,793
Aygaz A.Ş.	590,042	10,504
Ford Otomotiv Sanayi A.Ş.	21,603	-
Demir Export	13,355	-
Other	5,386	28,986
	38,732,432	39,123,426

Fixed asset purchases:	2003	2002
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	240,721	-
Otokoç Otomotiv Tic. ve San. A.Ş.	153,402	59,476
Birmot A.Ş.	98,758	-
Standart Motor A.Ş.	-	35,614
	492,881	95,090

Inventory purchases:	2003	2002
Kofisa Trading Company S.A.	7,426,396	4,945,683
Ram Dış Ticaret A.Ş.	1,930,504	1,219,904
Bursa Gaz ve Ticaret A.Ş.	701,929	465,962
Tekersan Jant Sanayi A.Ş.	668,878	421,455
Mako Elektrik Sanayi ve Ticaret A.Ş.	477,193	393,597
Mogaz Petrol Gazları A.Ş.	368,193	670,156
Birleşik Oksijen Sanayi Gazlar A.Ş.	348,361	385,231
Koç Sistem A.Ş.	170,467	120,217
Aygaz A.Ş.	150,861	602,692
Other	263,149	357,507
	12,505,931	9,582,404

Services received:	2003	2002
Koç Holding A.Ş.	915,149	1,457,161
Ram Sigorta Aracılık Hizmetleri A.Ş.	661,634	664,645
Entek Elektrik Üretimi Otoprodüktör A.Ş.	580,502	1,601,470
Setur Servis Turistik A.Ş.	260,526	324,948
Koçnet Haberleşme Teknoloji ve İletişim Hizm. A.Ş.	98,901	175,720
Koç Finansal Kiralama A.Ş.	83,730	240,207
Otoyol Sanayi A.Ş.	53,890	154,496
Setur Bookinturkey	50,992	42,846
Türk Demir Döküm Fabrikaları A.Ş.	44,845	-
Other	23,438	118,690
	2,773,607	4,780,183

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 6 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES(continued)

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

<u>Interest income:</u>	2003	2002
Koçbank A.Ş.	239,057	352,351
	239,057	352,351

<u>Foreign exchange income:</u>	2003	2002
Koçbank A.Ş.	742,902	1,319,771
Koç Faktoring Hizmetleri A.Ş.	-	1,495,281
	742,902	2,815,052

<u>Interest expenses:</u>	2003	2002
Koçbank A.Ş.	110,332	61,210
Koç Faktoring Hizmetleri A.Ş.	-	605,695
	110,332	666,905

<u>Foreign exchange losses:</u>	2003	2002
Koçbank A.Ş.	792,192	2,333,613
Koç Faktoring Hizmetleri A.Ş.	-	4,274,476
	792,192	6,608,089

iv) Other income and expenses with the related parties for the years ended 31 December:

<u>Dividends paid:</u>	2003	2002
Koç Holding A.Ş.	1,952,150	2,752,464
Ünver Holding A.Ş.	1,128,531	1,734,197
Otoyol Sanayi A.Ş.	39,968	-
Otoyol Pazarlama A.Ş.	39,968	-
Ford Otosan Sanayi A.Ş.	26,645	-
Other	1,361,017	2,057,476
	4,548,279	6,544,137

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 7 - INVENTORIES

	2003	2002
Raw materials	9,453,472	8,183,312
Finished goods	2,776,720	4,014,309
Semi-finished goods	1,923,217	1,249,301
Trade goods	1,589,894	1,189,703
Order advances given	580,939	1,792,411
Other	2,461,708	6,281,677
Total	18,785,950	22,710,713

NOTE 8 - OTHER CURRENT ASSETS

	2003	2002
VAT receivable	1,610,457	1,948,837
Prepaid expenses	111,884	94,071
Taxes and funds deductible	44,305	249,516
Receivable from personnel	433	908
Other	31,022	338,679
Total	1,798,101	2,632,011

NOTE 9 - AVAILABLE FOR SALE INVESTMENTS

	2003		2002	
	TL million	%	TL million	%
Investments				
Entek Elektrik Üretimi Otoprodüktör A.Ş.	2,355,847	0.09	1,537,259	0.09
	2,355,847		1,537,259	

Available for sale investments are measured at fair value and accordingly TL818,588 million and TL935,100 million are recorded as gain in the financial statements at 31 December 2003 and 2002, respectively.

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT - NET

Movements in property, plant and equipment and related accumulated depreciation during the year ended 31 December 2003 are as follows:

	1 January 2003	Additions	Disposals	Transfers	31 December 2003
Cost:					
Land	4,717,731	-	-	-	4,717,731
Land improvements	3,306,024	-	-	293,128	3,599,152
Buildings	26,031,022	-	-	-	26,031,022
Machinery and equipment	72,514,924	1,124,756	(236,519)	1,123,810	74,526,971
Motor vehicles	3,209,473	272,688	(398,784)	-	3,083,377
Furniture and fixtures	13,571,774	326,400	(826,599)	18,223	13,089,798
Special costs	956,933	-	-	-	956,933
Construction in progress	15,110	558,292	-	(573,402)	-
Advances given	-	1,010,470	-	(861,759)	148,711
	124,322,991	3,292,606	(1,461,902)	-	126,153,695
Accumulated depreciation:					
Land improvements	853,636	137,039	-	-	990,675
Buildings	8,143,457	981,096	-	-	9,124,553
Machinery and equipment	57,651,619	4,061,499	(236,518)	-	61,476,600
Motor vehicles	2,944,602	158,879	(371,681)	-	2,731,800
Furniture and fixtures	10,996,746	1,415,415	(836,639)	-	11,575,522
Special costs	870,380	33,337	-	-	903,717
	81,460,440	6,787,265	(1,444,838)	-	86,802,867
Net book value	42,862,551				39,350,828

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 11 - INTANGIBLE ASSETS

Movements in intangible assets and related accumulated amortization during the year ended 31 December 2003 are as follows:

	1 January 2003	Additions	Disposals	31 December 2003
Cost:				
Other intangible assets	1,063,068	197,061	-	1,260,129
Accumulated amortization:				
Other intangible assets	(918,917)	(118,805)	-	(1,037,722)
Net book value	144,151			222,407

NOTE 12 - GOODWILL

	1 January 2003	Additions	Disposals	31 December 2003
Negative goodwill	1,072,885	-	-	1,072,885
Accumulated amortization	(858,308)	(214,577)	-	(1,072,885)
Net book value	214,577			-

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 13 - BORROWINGS

	2003		
	Interest rate	Original currency	TL million
Short-term bank borrowings:			
GBP borrowings	5.09-6.02	11,793,706	29,208,411
USD borrowings	3.47-3.59	6,653,648	9,287,395
EURO borrowings	4.23-4.47	3,577,082	6,242,266
TL borrowings	-	460,265	460,265
Total			45,198,337

	2002		
	Interest rate	Original currency	TL million
Short term bank borrowings:			
GBP borrowings	5.50-6.75	12,616,709	37,845,349
EURO borrowings	5.10-6.89	9,685,221	18,889,513
TL borrowings	44.25	1,553,754	1,553,754
Total			58,288,616

NOTE 14 - TRADE PAYABLES

	2003	2002
Trade payables	21,695,327	16,265,474
Notes payable	30,600	33,089
Other	6,527	29,533
Total	21,732,454	16,328,096

NOTE 15 - OTHER CURRENT LIABILITIES

	2003	2002
Advances received	4,106,052	3,072,598
Taxes and funds payable	2,465,545	1,828,511
Expense accruals	1,763,766	795,480
Payable to personnel	1,638,748	687,130
Other	167,796	108,052
Total	10,141,907	6,491,771

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

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NOTE 16 - TAXATION

	2003	2002
Corporation taxes currently payable	7,485,784	3,935,271
Less: Prepaid taxes	(3,622,668)	(3,935,271)
Taxes on income	3,863,116	-

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

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 11% (10% effective from 1 January 2004). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% (33% for the fiscal year 2004) on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

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

Capital expenditures, with some exceptions, over TL5 billion (TL6 billion for 2004) are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowances utilized within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

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

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

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NOTE 16 - TAXATION (continued)

The taxation on income for the years ended 31 December, are summarised as follows:

	2003	2002
Taxes on income		
- Current	7,654,504	4,432,204
- Deferred	(3,325,223)	(2,159,572)
Total taxes on income	4,329,281	2,272,632

Deferred taxes:

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

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2004 under the liability method using a principal tax rate of 33% at 31 December 2003. The rate for other temporary differences is 30% (31 December 2002: 33%).

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers 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. Corporate taxpayers are obliged to prepare the opening balance sheets restated for inflation at 31 December 2003. Corporate taxpayers will submit their opening balance sheets restated for inflation at 31 December 2003 and declare their advance corporation tax prepared in accordance with the General Communiqué on Tax Procedure Law No: 328 ("Communiqué") dated 28 February 2004. Corporate taxpayers who prepare their financial statements in accordance with CMB's accounting principles related to hyperinflation accounting are not required to prepare their financial statements in accordance with Tax Law No: 5024. However, the accumulated depreciation disclosed in the opening balance sheet restated for inflation at 31 December 2003 should conform to the depreciation periods set out in the Tax Procedure Law.

The Company has decided to use the balance sheet prepared in accordance with CMB's accounting principles related to hyperinflation to prepare its opening tax balance sheet restated for inflation as permitted by Tax Law No: 5024.

Accordingly, taxable or deductible temporary differences as of 31 December 2003, which arose in prior years due to inflation restatement, have been partially eliminated. With respect to such temporary differences, deferred tax liability is reversed and the decrease in the deferred tax liability is credited to the income statement.

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NOTE 16 - TAXATION (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 31 December 2003 and 2002 using the enacted future tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	2003	2002	2003	2002
Net difference between the tax base and the carrying value of property, plant and equipment and intangible assets	11,022,114	16,108,534	(3,306,634)	(5,315,816)
Net difference between the tax base and the carrying value of inventories	-	3,066,099	-	(1,011,813)
Deferred financial expenses of trade payables	384,627	32,830	(126,927)	(10,834)
Deferred tax liabilities			(3,433,561)	(6,338,463)
Reserve for employment termination benefits	2,980,551	2,627,181	894,165	866,970
Deferred financial income of trade receivables	1,947,761	756,470	642,761	249,635
Deferred tax assets			1,536,926	1,116,605
Deferred tax liabilities, net			(1,896,635)	(5,221,858)

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

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NOTE 17 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

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, is called up for military service, dies or who 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 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL1,389,950,000 (2002: TL1,260,150,000) for each year of service.

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

The reserve has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	2003	2002
Discount rate	%6	%6
Turnover rate to estimate the probability of retirement	%95	%95

The principal assumption is that maximum liability of TL 1,389,950,000 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. As the maximum liability is revised semi annually, the maximum amount of TL 1,485,430,000 (1 January 2003: TL 1,323,950,000), which is effective from 1 January 2004, has been taken into consideration in calculating the provision for employment termination benefits of the Company.

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

	2003	2002
1 January	2,627,182	1,390,161
Charge for the year	690,054	1,868,415
Monetary gain	(43,401)	(258,752)
Payments during the year	(293,284)	(372,642)
31 December	2,980,551	2,627,182

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

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NOTE 18 - SHARE CAPITAL

The Company's shareholders and their shares at 31 December are as follows :

Shareholders	2003		2002	
	TL million	Share %	TL million	Share %
Koç Holding A.Ş.	10,300,952	42.92	3,362,735	42.92
Ünver Holding A.Ş.	5,954,944	24.81	1,873,497	23.91
Other	7,744,104	32.27	2,598,542	33.17
Total	24,000,000	100.00	7,834,774	100.00
Adjustment to share capital	43,412,923		59,460,799	
Total	67,412,923		67,295,573	

Adjustment to share capital represents the restatement effect of the cash contributions to share capital in year-end equivalent purchasing power.

NOTE 19 - RETAINED EARNINGS AND LEGAL RESERVES

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 share 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 share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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

	2003	2002
Legal reserves	2,873,548	2,217,989
Accumulated losses	-	(1,307,713)
	2,873,548	910,276
Historical amounts of dividends distributed during year from previous period's net income per statutory financial statements	4,537,127	4,862,825

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NOTE 19 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

Public companies distribute dividends according to CMB regulations as follows:

In accordance with Communiqué XI/25 section 15/399, the accumulated deficit that may arise as the balancing figure in the financial statements as a result of the first-time application of inflation accounting should be netted off in the calculation of the distributable profit. In addition, the net-off of such accumulated deficit against current year income and retained earnings, if any, legal and extraordinary reserves and adjustment to share capital can be made according to the related Communiqué.

In accordance with Communiqué XI/25, effective from 1 January 2004, companies are obliged to distribute at least 20% of their distributable profit arising from 2003 activity, which is calculated based on the financial statements prepared in accordance with IFRS. Based on the decision of the General Assembly, the distribution of a minimum of 20% of the distributable profit can be made as cash or as bonus share or as a combination of a certain percentage of cash and bonus shares.

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 amounts. The difference between the inflated and historical amounts of these items is presented in shareholders' equity in total 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 increase where extraordinary reserves can be netted off against prior year's losses, used in distribution of bonus shares and distribution of dividends to shareholders.

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

	31 December 2003
Share capital	24,000,000
Legal reserves	2,873,548
Extraordinary reserves	8,525,974
Restatement difference	60,642,000
Net income	8,120,714
Accumulated losses	(26,400,790)
Total share capital	77,761,446

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

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NOTE 19 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

The related amounts and the shareholders' equity restatement differences of the aforementioned nominal values are as follows:

	Historical amount	Inflated amount	Restatement difference
Share capital	24,000,000	67,412,923	43,412,923
Legal reserves	2,873,548	12,391,371	9,517,823
Extraordinary reserves	8,525,974	16,237,228	7,711,254
	35,399,522	96,041,522	60,642,000

NOTE 20- NET SALES

	2003	2002
Domestic sales	156,792,188	86,946,888
Foreign sales	40,837,994	44,069,171
Gross sales	197,630,182	131,016,059
Less: Sales returns and discounts	(136,032)	(117,359)
Net sales	197,494,150	130,898,700

NOTE 21 - MARKETING AND SELLING EXPENSES

	2003	2002
Sales commissions	6,982,977	10,359,995
Sales campaign expenses	3,443,138	2,621,291
Personnel expenses	2,954,792	2,791,156
Guarantee expenses	2,703,766	1,653,995
Royalty expenses	861,143	935,589
Insurance expenses	618,678	414,215
Exhibition expenses	574,737	99,116
Travel expenses	294,520	216,089
Collateral expenses	270,277	358,430
Advertisement expenses	231,090	139,630
Other	2,073,415	473,300
Total marketing and selling expenses	21,008,533	20,062,806

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 22 - GENERAL ADMINISTRATIVE EXPENSES

	2003	2002
Personnel expenses	4,853,420	4,080,053
Depreciation	1,497,205	1,442,907
Employment termination benefit	690,054	1,109,784
Services received	604,494	1,042,967
Donations	511,470	585,207
Legal and consulting expenses	346,341	361,604
Telecommunications expenses	330,679	337,749
Repair, maintenance and energy expenses	273,214	428,416
Rent expenses	237,416	344,773
Mechanization expenses	218,076	192,951
Taxes and funds	180,868	260,627
Insurance expenses	113,236	71,703
Travel expenses	104,984	168,677
Other	1,760,542	748,271
Total general administrative expenses	11,721,999	11,175,689

NOTE 23 - FINANCIAL INCOME - NET

	2003	2002
Financial income		
Foreign exchange gain	36,830,648	72,179,737
Interest income	2,941,576	5,855,409
Fair value gain	818,589	935,100
Unearned credit finance income	352,136	1,781,326
	40,942,949	80,751,572
Financial expenses		
Foreign exchange loss	23,493,681	31,526,596
Interest expenses	16,195,925	39,554,066
Unearned credit finance expense	166,321	1,109,577
	39,855,927	72,190,239
Financial income- net	1,087,022	8,561,333

NOTE 24 - FOREIGN CURRENCY POSITION

Assets and liabilities denominated in foreign currency at 31 December are in as follows:

	2003	2002
Assets	80,225,639	94,267,677
Liabilities	63,206,076	73,603,085
Net foreign currency position	17,019,563	20,664,592

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 24 - FOREIGN CURRENCY POSITION (Continued)

<u>Assets</u>	Foreign currency type	2003		2002	
		Foreign currency amount	TL million	Foreign currency Amount	TL million
Cash and cash equivalents	USD	665,326	928,685	21,065	39,231
	EURO	1,876,010	3,273,773	314,420	610,284
	GBP	327,382	810,798	15,332	45,751
		5,013,256		695,266	
Trade receivables	USD	47,692	66,570	589,490	1,097,860
	EURO	12,235,864	21,352,516	6,951,202	13,492,162
	GBP	12,619,943	31,254,677	9,799,179	29,240,983
		52,673,763		43,831,005	
Due from related parties	USD	422,022	589,073	-	-
	GBP	4,759,683	11,787,879	463,908	1,384,312
		12,376,952		1,384,312	
Long term trade receivables	EURO	5,823,065	10,161,668	6,366,312	12,356,900
	GBP	-	-	12,064,312	36,000,194
		10,161,668		48,357,094	
		80,225,639		94,267,677	
<u>Liabilities</u>					
Trade payables	USD	1,371,817	1,914,830	105,836	197,108
	EURO	2,976,997	5,195,074	1,329,184	2,579,923
	GBP	2,348,673	5,816,747	2,634,640	7,861,828
		12,926,651		10,638,859	
Due to related parties	EUR	1,783,080	3,111,602	1,307,592	2,538,013
		3,111,602		2,538,013	
Short term borrowings	USD	6,653,648	9,287,395	-	-
	EURO	3,577,082	6,242,266	9,685,221	18,889,513
	GBP	11,793,706	29,208,411	12,616,709	37,845,349
		44,738,072		56,734,862	
Other current liabilities	EURO	1,585	2,765	1,648,543	3,276,272
	GBP	979,963	2,426,986	213,850	415,079
		2,429,751		3,691,351	
		63,206,076		73,603,085	

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2003 AND 2002

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2003 unless otherwise indicated)

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES

a) Guarantees given at 31 December is as follows::

	2003	2002
Letters of guarantees	8,757,009	42,140,101
Personal guarantees	1,236	15,255,986
	8,758,245	57,396,087

b) Guarantees received as of 31 December is as follows:

	2003	2002
Letters of guarantees	8,626,048	7,850,230
Guarantee notes	1,951,099	2,476,672
Guarantee cheques	496,050	753,797
Mortgages received	113,000	128,755
	11,186,197	11,209,454

NOTE 26 - LEGAL MERGER

By decision of the extraordinary general assembly of the Company dated 19 August 2002 Istanbul Fruehauf Taşıt Araçları Sanayi ve Ticaret A.Ş. ("Istanbul Fruehauf") is merged with the Company by transfer of assets and liabilities as of 30 June 2002.

In the extraordinary general assembly of the Company dated 30 October 2002, merger with Istanbul Fruehauf is approved in accordance with the permissions of CMB (No: 45/1379) dated 4 October 2002, Ministry of Industry and Finance (No: 8689) dated 11 October 2002 and Turkish Competition Authority (No: 02-61/763-309) dated 4 October 2002 under the Turkish Commercial Code and tax legislation.

Legal merger as decided by the extraordinary general assembly of the Company is published in the Trade Gazette (No: 5670) dated 31 October 2002.

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