

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
TOGETHER WITH AUDITOR'S REPORT**

(ORIGINALLY ISSUED IN TURKISH)

**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH
SEE NOTE 44**

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

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 44**

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

FINANCIAL STATEMENTS AT 31 DECEMBER 2006

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OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

BALANCE SHEETS AT 31 DECEMBER 2006 AND 2005

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

	Notes	2006	Restated 2005
ASSETS			
Current Assets			
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
Total Current Assets		180.163.463	149.785.062
Non-current Assets			
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	-	-
Total Non-Current Assets		76.887.778	58.550.494
TOTAL ASSETS		257.051.241	208.335.556

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

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 44**

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

BALANCE SHEETS AT 31 DECEMBER 2006 AND 2005

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

	Notes	2006	Restated 2005
LIABILITIES			
Current Liabilities			
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
Total Current Liabilities		115.309.025	98.812.108
Non-Current Liabilities			
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
Total Non-Current Liabilities		6.809.033	5.930.297
Minority Interest	24	-	-
Shareholders' Equity			
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)
Total Shareholders' Equity		134.933.183	103.593.151
Total Shareholders' Equity and Liabilities		257.051.241	208.335.556
Commitments and Contingent Liabilities	31		

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.

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 44**

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	2005	2005
Revenue from Primary Operations			
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)		-	-
Gross Profit from Primary Operations		106.222.834	69.281.509
Operating Expense (net)	37	(64.384.362)	(53.071.424)
Income from Primary Operations		41.838.472	16.210.085
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
Operating Income		51.284.114	12.289.570
Monetary Loss	40	-	-
Minority Interest	24	-	-
Income Before Tax		51.284.114	12.289.570
Taxation on income	41	(9.871.605)	(2.934.086)
Net Income for the Year		41.412.509	9.355.484
Profit per Share (YKr)	42	0,173	0,039

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 44**

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	Accumulated Deficit	Net Income for the Year	Total Shareholders' Equity
Balances at 1 January 2005								
- as previously reported	24.000.000	63.693.113	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	-
Balances at 1 January 2005 - as restated	24.000.000	63.693.113	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
Balances at 31 December 2005	24.000.000	63.693.113	3.208.566	4.379.445	1.370.840	(2.414.297)	9.355.484	103.593.151
Balances at 1 January 2006 - 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)	-	-
Balances at 1 January 2006 - 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
Balances at 31 December 2006	24.000.000	63.693.113	4.544.498	1.449.218	898.363	(1.064.518)	41.412.509	134.933.183

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

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 44**

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
Cash flows from operating activities			
Net income		41.412.509	9.355.484
Adjustments to reconcile net income to net cash provided by operating activities:			
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)
Net cash provided by operating activities before changes in operating assets and liabilities:		61.214.319	24.105.358
(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
Net cash (provided by)/used in operating activities		(9.552.535)	38.945.693
Investing activities:			
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
Net cash used in investing activities		(3.027.039)	(3.706.241)
Financing activities:			
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)
Net cash provided by / (used in) financing activities		4.345.554	(31.267.181)
Net (decrease) / increase in cash and cash equivalents		(8.234.020)	3.972.271
Cash and cash equivalents at the beginning of the year		8.871.161	4.898.890
Cash and cash equivalents at the end of the year		637.141	8.871.161

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

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 44**

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.

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH - SEE NOTE 44**

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 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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:

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

2.3 Consolidation

The Company has no financial assets to consolidate.

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

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

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

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)

Change in Shareholders' Equity -

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 2005	1 January 2004
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)

Change in Shareholders' Equity - -

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.

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS
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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 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).

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 (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).

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 maintenance 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 related assets, are as follows:

	<u>New useful Life</u>	<u>New useful Life</u>
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.

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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..

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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)
	637.141	8.871.161

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.

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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
	637.141	8.878.575

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		
	Interest rate	Amount in	
	(%)	original currency	YTL
Short-term borrowings			
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
Total			46.310.292

	2005		
	Interest rate	Amount in	
	(%)	original currency	YTL
Short-term borrowings			
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
Total			26.962.707

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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
	81.880.032	97.874.668
Less: Provision for doubtful receivables	(6.593.469)	(6.484.135)
Less: Unearned financial income	(526.128)	(1.677.972)
Short-term trade receivables-(net)	74.760.435	89.712.561
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)
Long-term trade receivables-(net)	34.603.642	14.671.780

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
31 December	6.593.469	6.484.135

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)
Short-term trade payables-(net)	55.597.235	34.052.660

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NOTE 8 - LEASING RECEIVABLES AND PAYABLES

The Company rents the office in Küçükaly / 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).

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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:

<u>Bank balances:</u>	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
	121.721	6.997.775
<u>Due from related parties:</u>	2006	2005
Ram Dış Ticaret A.Ş.	325.244	534.761
Otokoç 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
	594.574	3.750.370
Less: Unearned financial income	(9.647)	(85.816)
Total	584.927	3.664.554
<u>Borrowings:</u>	2006	2005
Yapı ve Kredi Bankası A.Ş.	-	4.051.968
Total	-	4.051.968

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NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

<u>Due to related parties:</u>	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)
Total	2.056.662	2.331.613

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

<u>Product and service sales:</u>	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
Total	35.454.610	36.052.892

<u>Purchases of property plant and equipment:</u>	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
Total	595.257	382.477

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NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

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
Total	9.259.714	7.713.732

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
Total	12.634.698	12.485.299

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
Total	164.165	103.703

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
Total	1.098.923	1.070.190

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NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Interest expenses:	2006	2005
Yapı ve Kredi Bankası A.Ş.	141.707	51.396
Koçbank A.Ş.	(*)	256.291
Total	141.707	307.687
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
Total	1.325.831	758.389

(*) 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
Total	596.761	1.097.789

NOTE 11 - BIOLOGICAL ASSETS

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

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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
Total	91.905.121	41.590.109

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:

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NOTE 14 - DEFERRED TAX ASSETS AND LIABILITIES (Continued)

	Cumulative		Deferred tax	
	temporary differences		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	-
31 December			1.006.475	361.856

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**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
Total	11.679.078	4.841.474
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
Total	6.184.524	7.173.965
c) Other non-current liabilities:	2006	2005
Deferred payables to government	-	636.049
Total	-	636.049

NOTE 16 - FINANCIAL ASSETS

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

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.

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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
Cost:					
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
	136.137.404	3.655.862	(615.151)	(114.368)	139.063.747
Accumulated depreciation:					
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
	94.740.093	4.758.673	(564.490)	-	98.934.276
Net book value	41.397.311				40.129.471

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NOTE 19 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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
Cost:					
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
	148.156.541	4.137.931	(16.137.538)	(19.530)	136.137.404
Accumulated depreciation:					
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
	104.146.366	6.718.979	(16.125.252)	-	94.740.093
Net book value	44.010.175				41.397.311

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NOTE 19 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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 2006	Additions	Disposals	Transfers	31 December 2006
Cost:					
Intangible assets	2.007.437	203.962	-	114.368	2.325.767
Accumulated amortisation:					
Intangible assets	(1.498.885)	(214.929)	-	-	(1.713.814)
Net book value	508.552				611.953

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
Cost:					
Intangible assets	1.777.784	210.123	-	19.530	2.007.437
Accumulated amortisation:					
Intangible assets	(1.328.665)	(170.220)	-	-	(1.498.885)
Net book value	449.119				508.552

NOTE 21 - ADVANCES RECEIVED

	2006	2005
Other advances received	3.627.854	26.911.292
Total	3.627.854	26.911.292

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

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

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

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NOTE 23 - PROVISIONS (Continued)

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. 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)
31 December	4.609.006	4.407.223

Provision for warranty expense

The Company provides one year warranty for the Land Rover vehicles and two years warranty for midibusses 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)
31 December	1.490.699	1.375.203

NOTE 24 - MINORITY INTEREST

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

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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
Total	24.000.000	100,00	24.000.000	100,00
Adjustment to share capital	52.743.030		52.743.030	
Total	76.743.030		76.743.030	

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.

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**NOTE 26 - 27 - 28 CAPITAL RESERVES, PROFIT RESERVES, RETAINED EARNINGS
(Continued)**

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)
Total shareholders' equity	134.933.183	103.593.151

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
Total	28.544.498	92.237.611	63.693.113

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**NOTE 26 - 27 - 28 CAPITAL RESERVES, PROFIT RESERVES, RETAINED EARNINGS
(Continued)**

	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
Total	27.208.566	90.901.679	63.693.113

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
Total	34.290.071	33.971.433
Historical amounts of dividends distributed during year from previous period's net income per statutory financial statements	9.600.000	14.400.000

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)
Net foreign currency position	17.788.410	(2.193.243)

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NOTE 29 - FOREIGN CURRENCY POSITION (Continued)

	Foreign Currency	2006		2005	
		Foreign currency amount	YTL	Foreign currency amount	YTL
Assets:					
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
		197.909		912.868	
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
		47.446.011		51.218.202	
		GBP	117.975	325.244	534.761
		325.244		534.761	
Other receivables-(net)	EUR	6.446	11.935	17.501	27.782
	GBP	1.399	3.857	351.399	812.470
		15.792		840.252	
Long-term trade receivables	EUR	18.396.374	34.060.886	8.986.786	14.266.523
		34.060.886		14.266.523	
Total foreign currency assets		82.045.842		67.772.606	

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NOTE 29 - FOREIGN CURRENCY POSITION (Continued)

	Foreign currency	2006		2005	
		Foreign currency amount	YTL	Foreign currency amount	YTL
<u>Liabilities:</u>					
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
		18.464.978		20.436.803	
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
		42.180.600		19.100.247	
Due to related parties	EUR	-	-	579.501	919.958
				919.958	
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	-	-	-	-
		3.611.854		29.508.841	
Total foreign currency liabilities		64.257.432		69.965.849	
Net foreign currency position		17.788.410		(2.193.243)	

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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
	50.709.590	32.431.713

NOTE 32 - BUSINESS COMBINATIONS

None (2005: None).

NOTE 33 - SEGMENT REPORTING

None (2005: None).

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NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2006

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

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)
Net sales	337.615.450	284.012.522

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
	3.780	3.750

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
Cost of sales	231.392.616	214.731.013

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NOTE 37 - OPERATING EXPENSES

	2006	2006
Sales and marketing expenses	42.029.680	32.015.384
General administrative expenses	15.684.753	15.185.510
Research and development expenses	6.669.929	5.870.530
Total operating expenses	64.384.362	53.071.424

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
Total	39.522.687	21.834.944

	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
Total	24.757.113	28.489.122

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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
Total	5.319.932	(2.733.663)

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)
Prepaid taxes-net (Note 10)	580.036	1.043.074

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.

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NOTE 41 - TAXES ON INCOME (Continued)

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.

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NOTE 41 - TAXES ON INCOME (Continued)

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)
Total taxation on income	9.871.605	2.934.086

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NOTE 41 - TAXES ON INCOME (Continued)

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

	2006	2005
Income before tax	51.284.114	12.289.570
The effect of the adjustments made on the statutory financials in accordance with the CMB Accounting Standards:		
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)
Total effect of adjustments	(4.786.805)	1.252.227
Statutory income before tax	46.497.309	13.541.797
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)
Corporate tax base	46.346.620	12.077.195
Corporation tax expenses:	9.269.324	3.623.158

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

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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.

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