

# Otokar

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# Otokar

## PART I

### ***1.1 INTRODUCTION***

Otokar has been providing customers with solutions to meet special requirements using its own technology, design and applications since 1963. Otokar has 100 % local capital and manufactures “M-2000” branded minibuses, midi busses named “Sultan” and “Navigo” for the public transportation, 4x4 tactical wheels land type vehicles named “Land Rover defender” under the license of Land Rover for the defense industry, light armored wheeled vehicles under the brand names “Cobra”, “Akrep”, “ZPT”, “Otokar-Yavuz”; semi trailers and trailers under the brand name “Otokar-Fruehauf” for the transportation and logistics industry.

Otokar has a production capacity of 1160 trailers, 425 armored and 7550 other vehicles totaling 9135 vehicles a year at its plant covering 169,000 square meters with around 900 employees in Arifiye, Adapazarı.

Otokar has been carrying out its sales of public transportation and semi trailer vehicles through close to 30 distributors spread all around the country; and sells directly to state enterprises and export markets. All sales concerning defense industry are carried out by Otokar.

#### **Vision:**

Otokar preserves its national and local character in its products by developing its own technology; aims to maintain customer satisfaction but also the satisfaction of its employees and partners and shareholders thanks to its total perfection philosophy.

#### **Mission:**

The main duties of Otokar is to design, manufacture and market commercial vehicles as well as various defense industry products as competitive products by world standards in line with the customer requirements and expectations.

#### **Principles:**

Otokar aims to supply services and products at universal quality and standards and health development by maintaining customer satisfaction together with its employees within the framework of principles and targets specified by the Koç Group of Companies. This way, it aims to become a reliable source and symbol for safety, continuity and respect for its country, clients, shareholders and business partners as well as for the suppliers. Otokar takes its clients as its owners and aims to be “the best” at all times, is conscious of its most precious capital being its employees, and aims to increase the power of the Turkish Industry where it takes its strength from by keeping to the principles of work and business ethics closely to create resources for continuous development.

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## **1.2 CHAIRMAN'S LETTER**

I am proud to announce that we have passed through a successful year throughout 2004, as we have done so in other years in the past. Within the past year, we attained a turnover of NTL (New Turkish Lira) 290 million by a growth of 29% and we increased our profit by 128% to NTL 20 million 688 thousand.

As we have always stated, Otokar is one of the rare companies that is capable of using all the advantages of being active in private markets to the favor of the company and thus adding value to your investments. Having attained such results due to its success in commercial vehicles, Otokar proved how reasonable it was to decide for the manufacture of small bus and for the semi-trailer enterprise.

### ***We grew in mass transportation and semi-trailers in 2004***

After the commercial vehicle leap undertaken in 2003, Otokar used one of its strongest opportunities during the last year: "capability for research, development and design".

Last year, we had said that we aimed to improve our Sultan series, the small buses very popular in the market, by new models; during 2004, we added Sultan VIP and Sultan 125L models to our small buses.

During 2004, we developed a brand new small bus meeting the standards and the needs of the European market. We presented our new vehicle, Navigo 165S, to the drivers for the first time in IAA 2004, which is the largest commercial vehicle fair of Europe.

Our semi-trailers with Otokar-Fruehauf brand also showed Otokar's strength in research and development in 2004. The 2005 model semi-trailers are equipped with new technologies and tools meeting the developing needs, taking the customer needs and expectations into consideration.

Our minibuses, which we have been manufacturing since 1970's and which are the essential vehicles of mass transportation in big cities, were offered to the market with a new series for our young, dynamic new-generation customers this year: "M-2000 Sport". Our special-series of minibuses have been so appreciated by our customers that we faced a queue for our M-2000 Sport model.

2004 was a year, in which we became involved in research and development activities by forecasting the demands of our customer, especially for the realm of the commercial vehicles, and reflected the results thereof to our vehicles, leading to positive outcome. In this aspect, we became fit for "the closest group to the consumer" vision of Koç Group.

While being involved in such leaps for commercial vehicles, we also carried on our activities in the realm of the defense industry. In 2004, we attended Eurosatory 2004, one of the greatest defense industry fairs of the world, with new products of Otokar. Cobra armored vehicle, designed by Otokar, and Land Rover Defender

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Hidden Armor Station Wagon, which we exhibited for the first time, were appreciated by the visitors of the fair.

One of the most honoring events for Otokar in the realm of defense industry was participating in the tank feasibility surveys in 2004. We were one of the three companies appointed for feasibility surveys to find the solutions to meet the modern tank needs of the Turkish Armed Forces. This appointment was strictly consistent with Otokar's strategy to grow by its intellectual property rights, in other words, by products whose design, technology and royalty belongs to Otokar.

## ***Our rate of offering new models to the market will improve with Research and Development Center***

As you know, Otokar has been one of the leading companies for the development of Turkish automotive sector with its emphasis on the research and development since its foundation. Our resolution for investing in "Otokar R & D (Research and Development) Center", resolved last year, is a good example for this.

By means of Otokar R&D center that we will establish in Adapazarı, our rate of offering new models to the market will improve and we will attain the fast growth that we aim.

We emphasize that the basic reason for sustainable growth of Otokar is the fact that it is involved in private markets and thus it is one of the companies influenced minimally by the changing economic and social factors. I think that Otokar will prove this strength of its once more in 2005, in which a contraction is expected for the automotive sector.

## ***2005 will be the Year of Leap in Defense Industry for Otokar***

The basic grounds for this belief of ours are the orders that we received from the defense industry in late 2004. The total value of the order, which we received in just the last four months of 2004, is approximately USD 43,3 million. Among these orders, the portion amounting to USD 7,6 million was delivered in 2004. Our 4x4 tactical vehicles and armored vehicles, on the other hand, attract not only the Turkish Army but also the armies throughout the world. Among the five orders received in this period, three make up the export markets.

I am very happy and proud with this performance of ever-growing Otokar. 2005 will be the year of leap in defense industry for us. We will aim to attain a profitable growth in parallel with the aims of the Koç Group and to continue creating value for our shareholders.

I wish 2005 would be a beneficial year for all of us.  
Best regards,

Selçuk Gezdur  
Chairman of the Board of Directors

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## 1.3 OTOKAR in 2004

Otokar has increased number of products sold in 2004 by 29.6 % compared to 2003 and sales turnover by 43.35 % reaching YTL 283 millions.

This achievement of Otokar results basically from basing its efforts on sales to local market for the sale of public transportation and semi trailer vehicles. At the end of the year defense projects have been received and especially during the last quarter of the year major improvements have been affected concerning military vehicles through introduction of new products.

The year 2004 has been a year when Otokar has displayed its creativity, research and development activities to the outer world about commercial vehicles and in the areas of defense industry. Otokar has participated at the Eurosatory 2004, one of the important fairs in the area of world defense industry, and the IAA 2004 for commercial vehicles under its own design and brand named vehicles. In order to reach the targets for fast growth with the sales of vehicles the intellectual property rights of which belong to Otokar it has taken major decisions in the areas of development and research and has initiated the first steps for the activities of the "Otokar R&D Center" in 2004.

Otokar believes that efficiency is the most important factor for success, therefore has continued with its improvements in this area also in 2004. Last year it has strengthened its relationships with its business partners for target sharing and evaluation of achievements. In line with the principle that its most important assets are human resources, it has continued to invest in human resources.

New Tables:

	2003 Produ ction	2004 Produ ction	Change Producti on (%)	2003 Sales	2004 Sale s	Change Sales (%)
Minibus	1237	1415	14,4	1236	1416	14,6
Land Vehicle	565	607	7,4	551	563	2,2
Armored Vehicle	99	115	16,2	91	127	39,6
Midi bus	613	1108	80,6	629	1108	76,2
Trailer	860	1164	35,4	865	1157	33,8
TOTAL	3.374	4.409	30,7	3.372	4.371	29,6

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	<u>2004 (YTL)</u>	<u>2003 (YTL)</u>	<b>Change</b> <u>%</u>
Local Sales	254.497.124	178.337.737	43
Sales Abroad	35.249.568	46.490.068	(24)
<b>TOTAL</b>	<b>289.746.692</b>	<b>224.827.805</b>	<b>29</b>

## Activities:

### 1. Public Transportation:

Otokar has grown with new models in the area of public transportation in the year 2004. Otokar preserves its leadership in the area of allocated route minibus transportation and has presented M-2000 Sport model of minibuses for dynamic and young drivers. And in the area of small minibuses with the brand name Sultan the new model Sultan VIP mainly for use in the tourism industry has been introduced. It has initiated first steps in the year 2004 to move forward with small busses in the export markets; it has introduced its small bus model with the brand name Navigo at the IAA 2004 fair and exhibition, one of the major fairs in the world for commercial vehicles.

### 2. Trailer, Semi-trailer:

In 2004 Otokar has renewed its trailers and semi-trailer vehicles presented to the logistics and transportation sector in line with customer requirements and expectations by affecting technological improvements and developments. The semi trailer vehicles with the brand name Otokar – Fruehauf have kept their places in the market and have become first choice for many leading companies.

### 3. Defense Industry:

Otokar having attracted attention with its products exhibited at the Eurosatory 2004, the most prominent defense industry fair in the world, has also occupied the agenda with its active role in the work to carry out feasibility studies for the modern tanks required by the Turkish army in 2004. The main achievement in the defense industry has been the orders received from the defense industry towards the end of the year.

### 4. Research and Development:

Otokar has started to work to set up "Otokar Research and Development Center" (R&D) to continue products purely belonging to Turkey with Otokar having sole intellectual property in 2004. The aim is to equip the center with hydraulic road simulator, various testing devices and computer systems to create data and carry out evaluations. With the R&D center Otokar shall have the capacity to test vehicles and present them to the market rather fast and effectively, as a company leading the Turkish industry for over 40 years in the area of automotives, aims to present its testing capacity to all those involved in the automotive industry. The R&D center to be established on a covered area of 1000 square meters shall cost USD 6.5 millions when completed.

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## 5. Activities for YTL:

Otokar has successfully completed its work on the YTL Project activities as at the end of October started in March 2004 because six zeros are dropped of the Turkish Lira as of January 1, 2005. During the process of the project all applications have been reviewed and necessary revisions affected and YTL compatible versions of the applications have been prepared and the new applications have been passed through tests for applicability. In addition, special computer software has been prepared converting the present data into YTL. On 01/01/2005 conversion to YTL has been implemented with success.

## 6. Service Network:

Otokar has gathered with its distributors of minibus, small bus, and semi trailer at the agency meetings carried out during 2004. At the meetings where Otokar has acted as the host all of the distributors in Turkey have participated. During the meetings a general evaluation and assessment of previous years and the current period have been made and developments affecting the sector have been shared with the other agents. Apart from the agency meetings training for product and sales development have continue all throughout the year 2004.

## 7. Human Resources Activities:

Otokar is conscious that its most important capital is human resources and in line with this principle it has continued to implement applications to satisfy its employees also in 2004. Activities like Koç Group Award Festival for Senior Employees when long term employees of the company and the Koç Group of Companies are honored, New Year's Dinner, Otokar Movie Days which strengthen the bonds among the employees have been carried out; the employee motivation has been promoted by internal get together activities like those above.

## 8. Efficiency:

To increase efficiency in production and processes involved Otokar has been effecting continuous improvements in the system and in 2004 it initiated work to apply EFQM model. Apart from the processes internally and the production applications the "online communication" program is implemented in 2004 to play a major part in increasing the efficiency of the suppliers and business partners. In addition, Otokar has organized a meeting titled "from Parts to the Total- Suppliers Meeting '04" to develop relationships with the suppliers. Year assessment and target distribution have been the major subjects discussed and implemented at the meeting and business partners specified in certain categories have been awarded with prizes.

## 9. Social Responsibilities:

Otokar has not only become a good neighbor in the area it has been operating in 2004 but also continued with its efforts to protect the environment under the conscious of responsibilities it has been carrying for the environment and has continued also its efforts in spreading this consciousness among its employees by organizing festivities and activities. Among these festivities organized to spread consciousness for the environment among the employees and their employees are social activities like trekking in local areas and regions throughout the year.

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## **1.4 ASSESSMENT BASED ON PRODUCT**

### **1.4.1 LAND ROVER**

Otokar is one of the leading manufacturers of Land Rover Defender vehicles. In the 1980 's the production story starting with the receipt of the Land Rover license continues with the production of Land Rover Defender production in close to 40 varieties today. Otokar works on the most suitable design and solution on the 4x4 tactical vehicles on wheels pursuant to the client requests and requirements.

Otokar has increased its Land Rover Defender production by 7.4 % in 2004 and has manufactured 607 4x4 tactical vehicles on wheels and sold 563 of them. The major part of the orders received from the defense industry in 2004 is made up from Land Rover defender vehicles by the number of orders received. Towards the end of the year 2004, in the months of December and November, Otokar has received two separate orders to be delivered in 2005 for the Land Rover Defender vehicles and associated spare parts. A total of 429 vehicles are to be delivered under both of the orders one of which concerns exports.

The year of 2004, a new member of Land Rover Defender family has been exhibited at one of the most prominent fairs of defense industry of the world for the first time. The Armored Station Wagon presented to the world for the first time in Paris, which is the latest model of Otokar is a standard and non military looking vehicle and carries an armored structure suitable for military operations and has superior road and land capacity. The Armored Station Wagon may be suitable for VIP's under threat, embassy personnel, but also the help and aid agencies working in areas of war or similar to war, the UN missions, media members, representatives of international companies operating in these areas who are likely to be targets in a threatening environment by allowing safe and secure travel. The Armored Station Wagon providing full protection against all kinds of threats coming from outside allows 5 persons to travel under the armor ballistic tests.

### **1.4.2 ARMORED VEHICLES**

Otokar has its own design and technology in the field of armored vehicles and is one of the leading establishments in the world in this field. In 2004 it displayed its strength once more by taking part in the activities concerning tank feasibility studies apart from its sales contracts.

To increase reconversion in the world markets of the defense industries Otokar has exhibited its tactical armored vehicle on wheels Cobra with intellectual property fully belonging to Otokar in a the fair Eurosatory 2004 where 850 participant companies from 39 different countries have participated in the world in the field of defense carried out at the Villepinte exhibition center in Paris between the dates of June 14 and 18.

Cobra is a vehicle carrying the specifications for being multi functional armored vehicle designed in the structure and under the specifications capable of meeting all the requirements of modern armies as accepted worldwide today. At the Eurosatory

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fair Cobra is exhibited under its “Open Tower” model and may be manufactured in various formats depending on the areas of use. Since it is designed on the same body and infrastructure, it allows great relieve of pressure on human resources. Even if they are manufactured for use in different areas of use, since the main structure is the same, it is easy to carry out maintenance work, repairs and use of spare parts by reducing costs tremendously and this makes Cobra one of the most preferred vehicles by the armies of the world.

In 2004 Otokar has manufactured 115 armored vehicles and sold 127 and towards the end of the year 2004 obtained major contracts for the armored vehicles. Large portion of them shall be delivered in 2005 and most of them are exports.

In 2004 in addition, the engineering tests for the Otokar –Yavuz which is the first 8x8 tactical armored vehicle on wheels of Turkey have been continued with.

Otokar, apart from its own design brand names, has armored vehicle production for the companies operating abroad with all design and production belonging to Otokar itself. Otokar also executed similar contracts during the past years and in 2004 it has executed a contract with a company based abroad to export 34 armored vehicles having been manufactured at the plants of Otokar. Under this project to be completed in 2005 the moving chassis to be supplied by the company from abroad shall be turned into armored vehicles by Otokar.

One of the missions accomplished by Otokar in 2004 in the field of defense industry has been to become one of the three companies assigned by the Undersecretary of Defense Industry (SSM) to carry out feasibility studies for the production of the main attack tanks required by the Turkish Armed Forces (TSK). under the contract for “Tank Design and Production Feasibility” executed with the Undersecretary for the Industry of Defense Otokar shall determine the possibilities for production from local and foreign sources of The Modern Tanks of Turkey at maximum local input and most appropriate costs together with the joint work group where Otokar is also part of. And also determine the benefits and disadvantages for alternative models concerning the project.

In the first tender concerning the supply of modern tanks of 3. Generation for the Turkish Armed Forces it was planned to manufacture the tanks in the country under license and the Turkish companies participated IN the tender jointly with the licensing companies. Otokar also participated in the tender together with a joint venture group where it was the leader company and had offered the Leopard 2 A6 tank of the German Kraus Maffei Wegmann (KMW).

Following the tests for the vehicles and the assessment of the offers the Defense Industry Execution Committee announced its decision arrived at its meeting dated May 14, 2004 with the following words: “for the said projects it has been decided to create new supply models taking local production and design utilizing national sources at their maximum and to meet the requirements of the Turkish Armed Forces pursuant to these models”.

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## 1.4.3 MINIBUS

Only in the city of Istanbul the transportation of passengers covers almost 1 million of people, the Otokar minibuses meeting this load of transportation for the major part in the monopolistic areas of Turkey has continued its leadership in the route assigned minibus transportation in Turkey in 2004. For the total of the minibus market Otokar received 14.2 % share becoming second. In 2004 Otokar increased its turnover by 14.6 % for minibuses and arrived at a total sales figure of 1416 minibuses. 32 % of total sales of Otokar are made up from minibuses.

In 2004 ABS is started to be introduced on vehicles of 2005 models of M-2000 in standard production to increase passenger and user safety.

The year of 2004 also witnessed new introductions of Otokar as the expert of design in its field of activity concerning production of minibuses. Otokar has introduced to the market the M-2000 Sport, special series minibuses, designed for the minibus drivers of new generation following latest trends in the automotive industry and who wish to be different. Especially produced for the new generation minibus drivers the M-2000 Sport equipped with technological products and accessories and prepared in the design of sports is manufactured in limited numbers and they are introduced for sale together with the number plate displaying the production serial number and special key holder. The M-2000 Sport exhibited at the İzmir International Fair for the first time had drawn a lot of attention.

The major element in the difference between the previous models for the M-2000 Sport is its design to provide comfort for the passengers as well as the driver and also more entertaining. At the M-2000 Sport where the preferences of the new generation in the minibus sector is taken into account the dynamism and excitement bearing features in every detail from design to technology has been taken into account. Internal design as well as external design contains new applications and M-2000 Sport thus carries white lenses front indicator lamps, back indicators-stop lamp group with LED lights, the 3. Break lamp trim to be noticed better in heavy traffic and strong Xenon head lamps increasing the road sight of the drivers at night are added features of the vehicle. At the M-2000 Sport the modern line of the Sultan small minibuses introduced to the market by Otokar as of late has been continued with; at the front sun protectors, head lamp frames, around the front indicators, and at the back black metallic paint is used. Internal design is quite different from the standard M-2000 and with this technology and design the M-2000 Sport is caught with the eye immediately. Its most prominent feature is the application of DVD/VCD/MP3 player system and the monitor for the first time in Turkey. With this system the owner of the minibus may earn some extra income by allowing advertisements to appear on its system. This way it is also possible to inform the passengers on certain issues. For the passengers to have some entertainment stuck in heavy traffic another added feature, radio/tape player with 4 strong loudspeakers has become part of the M-2000 Sport.

The Otokar Line bulletin prepared only for the minibus drivers of Otokar vehicles has been continued with also during 2004.

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## 1.4.4 SMALL BUS

In 2004 the Sultan small busses joining the Otokar family of vehicles has become a major success in the field of public transportation of Otokar like in the previous years. The Sultan series of vehicles growing with its new models in its class for vehicles with 25, 27 seats capacity has completed its second year of production with 22 % share of the market.

As for the minibuses, the ABS introduced as standard in all the small bus models presented to the market with the 2005 year model has become one of the major features added to increase safety of the vehicles during the past year.

The Sultan series of vehicles meeting the clients through various promotional activities at the İzmir International Fair and Antalya Auto show 2004 Exhibition locally has become one of the most preferred vehicles to be used by the public transportation companies of the municipal authorities and the leading inter city transportation companies in Turkey.

Otokar has been paying utmost attention to the requirements of the consumers and therefore it has started to operate Emergency Service vehicles all over Turkey on 24 hours basis 7 days a week for its Sultan small busses.

Three more new vehicles have been added to the small bus family renewed through continuous activities for research and development in the year 2004.

In March Sultan VIP is introduced to clients and distributors at a meeting and in a very short period of time it has become one of the most preferred vehicles to be used in the tourism sector and the VIP passenger transportation. With the latest model of Sultan, the Sultan VIP > Otokar appeals to all the market mix from service transportation to tourism.

In line with the requirements of the customers Sultan VIP is equipped with advanced technologies and DVD, VCD, MP3 player, LCD screen, loudspeaker announcement system, heated and electric controlled horn side mirrors and wooden cased indicator panel, as the most prominent features. There are two alternatives for Sultan VIP in metallic bronze and metallic silver paints. Sultan VIP with its bus type large chassis and miraculous Deutz engine it levels up to the maximum the performance as well as the safety of a vehicle. It also introduces the best road driving in its class of segment. At the Sultan VIP which displays major superiority to its closest rivals with its large interior area there are refrigerator, tea/coffee machine, modern and elegant seats covered with velvet cloth which are convertible in and out and sideways, driver's seat with air suspension system capable of being adjustable to all directions, other standard equipments allowing maximum comfort and safety. At the Sultan VIP designed especially for tourism and long distance transportation by Otokar there is also a seat reserved for a hostess.

The second vehicle joining the Otokar Sultan family is the Sultan 125L with its 25 person capacity and 123 HP strong engine; the Sultan 125L is introduced for short distance transportation.

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Small busses planned to be introduced to export markets under the brand name “Navigo” are displayed for the European market for the first time at the IAA 2004 Fair organized In Hanover, Germany. His Navigo 165 series of vehicles designed especially for the European market has drawn a lot of attention from the visitors at the IAA 2004 fair, which is one of the leading commercial vehicles exhibition in the world.

## 1.4.5 TRAILER

Having experienced a fruitful year in 2004 due to the impact of the revival of the automotive sector on the trailer sector, Otokar-Fruehauf attained a market share of 24% in 2004. Monitoring the technology daily and trying to promptly provide its customers with the innovations, Otokar sold approximately 1200 trailers in 2004. Nearly 700 of the vehicles sold in 2004 were tarp trailers, 400 were refrigerated dampers and the remaining were vehicles with models such as textile carriers and tankers etc.

Having participated in the Fourth Fair for Commercial Vehicles, Related Industries and Accessories in Istanbul organized between 22<sup>nd</sup> and 25<sup>th</sup> April 2004 in Beylikdüzü Tüyap, Otokar exhibited its trailers and semi-trailers under Otokar-Fruehauf brand and its models of Sultan series. The Otokar semi-trailers and trailers equipped with the state-of-the-art technological systems were greatly appreciated by the visitors.

Otokar, considering that the needs and expectations of the customers improve in parallel with the developing technologies and competition, initiated radical changes generally for the semi-trailer vehicles, especially for the 2004 tarp vehicles and refrigerated vehicles during the second half of 2004. Such innovations have been enforced and offered to the customers since 1<sup>st</sup> September 2004.

The new models have been developed to be capable of carrying heavier cargo within the framework of the applicable regulations, while on the other hand, ensuring easier and more practical dispatch opportunities. Safety and aesthetics were also emphasized in the vehicles, developed employing the state-of-the-art technology.

One of the most important innovations developed by Otokar in 2004 was the tube-carrier semi-trailers. These vehicles, which have been developed for LPG companies, have metal sheet framework structures on top of them. The vehicle may be covered by a rolling tarp and special-alloy metal sheets are used for the floor of the vehicle. 10 of these specially-designed semi-trailers were delivered to Aygaz to be used for transportation between the warehouses of the company.

Otokar-Fruehauf remained as the first choice of the leading companies of the sector in 2004. RODPA Araç Servis Pazarlama ve Ticaret A.Ş. (RODPA Vehicle Services Marketing & Trade Inc.), which is established by the partnership of the member firms

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of RODER (Economic Enterprise of the Association for the Ro-Ro Vessel Operators and Combined Transporters) preferred Otokar first for the group buying campaign. According to the agreements signed by and between Otokar and RODPA, 200 semi-trailers amounting to Euro 5.6 million in value were delivered to the member firms of RODER.

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## 2 PART II

### AGENDA FOR FORTY-SECOND ORDINARY GENERAL ASSEMBLY OF OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş. TO BE ASSEMBLED ON 12.04.2005 AT 11.30 HOURS

#### 2.1 AGENDA

- 1- Opening and the election of the Presidential Board.
- 2- Presentation of and negotiation on the report of the Board of Directors for activities and accounts of 2004, the report of the Auditor and Independent Audit Organization, Başaran Nas Serbest Muhasebeci Mali Müşavirlik A.Ş. Approval, approval after amendment or disapproval as to the proposals by the Board of Directors related to balance sheet and income statement for the year 2004.
- 3- Discharge of the Members of the Board of Directors and the Auditor due to activities in 2004.
- 4- Informing General Assembly on the donations and aids provided by the company for foundations and associations for social aid purposes during 2004.
- 5- Approval, approval after amendment or disapproval of the proposals of the Board of Directors for distributing the profit of the year 2004 and the date thereof.
- 6- Reelection or replacement of the Members of the Board of Directors whose terms of office have expired.
- 7- Reelection or replacement of the auditors whose terms of office have expired.
- 8- Determining the annual remunerations for the Chairman and Members of the Board of Directors as well as the Auditors.
- 9- Resolving the amendment of articles 7, 24, and 28 of the articles of association and insertion of the Provisional Article.

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- 10- Approving the appointment of the independent audit organization appointed by our Board of Directors under the Circular on Capital Market Independent External Audit issued by Capital Market Board
- 11- Authorizing the Members of the Board of Directors for becoming involved in the businesses covered by the scope of the company subject personally or acting on behalf of third parties and becoming a shareholder to companies involved in such businesses as well as becoming involved in other businesses under articles 334 and 335 of the Turkish Commercial Code.
- 12- Authorizing General Assembly to sign the Minutes of the General Assembly.

Comments.

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**FOR THE PERIOD BETWEEN 01.01.2004 - 31.12.2004 SUBMITTED TO THE FORTY-SECOND ORDINARY GENERAL ASSEMBLY ASSEMBLED ON 12<sup>th</sup> APRIL 2005**

## **2.2 REPORT OF THE BOARD OF DIRECTORS**

Esteemed Shareholders,

Welcome to the Forty-Second Ordinary General Assembly assembled to evaluate the results of the activities of our company in the year 2004 and to negotiate and resolve on other matters on our agenda. We thank you for your kind interest, saluting you all with respect.

During this meeting, we would like to inform you about our activities in the year 2004 and to provide our financial statements issued according to the International Financial Reporting Standards to show the outcome of our activities in 2004 for your examination and approval.

The members of the Board of Directors and Supervisory Boards, their terms of office and limitations of powers are given below.

### **Board of Directors:**

<u>Name &amp; Surname</u>	<u>Duty</u>	<u>Term of Office</u>	
		<u>From</u>	<u>Until</u>
Selçuk GEZDUR	Chairman	15.04.2004	12.04.2005
Halil İbrahim ÜNVER	Ass. to Chairman	15.04.2004	12.04.2005
Alpay BAĞRIAÇIK	Member	15.04.2004	12.04.2005
Rüşdü SARAÇOĞLU	Member	15.04.2004	12.04.2005
Ali Tarık UZUN	Member	15.04.2004	12.04.2005
Kudret ÖNEN	Member	15.04.2004	12.04.2005
Taylan BİLGEL	Member	15.04.2004	12.04.2005

*The limitations of the powers for the chairman and the members of the Board of Directors are determined according to article 12 of the Articles of Association and the provisions of the Turkish Commercial Code.*

### **Supervisory Board :**

<u>Name &amp; Surname</u>	<u>Duty</u>	<u>Term of Office</u>	
		<u>From</u>	<u>Until</u>
Dr. Füsun AKKAL	Auditor	15.04.2004	12.04.2005
Metin UTKAN	Auditor	15.04.2004	12.04.2005

# Otokar

The limitations of powers for the auditors are determined under article 16 of the Articles of Association and the provisions of the Turkish Commercial Code.

## **Company Capital, Shareholders Holding Over 10% of the Capital:**

The registered capital of our company is NTL (New Turkish Lira) 25 million as of the date 31.12.2004 and the issued capital is NTL 24 Million.

The shareholders holding over 10% of the capital and their share amounts as well as their respective rates in our company are given below.

<u>Title of the Shareholders</u>	<u>Share Amount (YTL)</u>	<u>% Share</u>
Koç Holding A.Ş.	10.300.952	42.92
Ünver Holding A.Ş.	5.954.944	24.81

The shares with the value of NTL 7.744.104, which represents the remaining 32.27 % of the shares, is shared by approximately 5812 shareholders according to the latest information that we received from Takasbank A.Ş.

Our shares quoted in the Istanbul Stock Exchange had TL 3.375 as the lowest value and the highest value as TL 6.800 during the period.

## **Amendments to the Articles of Association throughout the Period:**

*No amendments were made in the articles of association in the year 2004.*

## **Dividends Distributed During the Last Three Years and their Rates:**

*Otokar distributed the following dividends during the last three years, excluding the last year.*

<u>Period</u>	<u>%</u>
2001	65,00
2002	55,50
2003	--

*All the dividends relating to the activity periods 2001 and 2002 were paid in cash to our shareholders. However, as the profit of the year 2003 was deducted from the losses of the previous years under the International Financial Reporting Standards, no dividends were paid.*

## **Subsidiaries of Our Company :**

*Our share ration in Entek Elektrik Üretimi A.Ş., located in Bursa is 0.9% as of 31.12.2004.*

## **AUTOMOTIVE SECTOR AND OTOKAR**

*The products range of Otokar, which is included in the light commercial vehicles group of the automotive sector, consists of the minibus and midi bus type vehicles for the commercial market,*

# Otokar

which are preferred for mass transportation and employee conveying, on one hand, and various types of 4x4 land type vehicles and light armored vehicles with tires for defense industry services, on the other. Moreover, we manufacture trailers and semi-trailers for transportation and logistic sector under the brand Otokar-Fruehauf.

After a period with serious distress since 2000, Turkey finally achieved three important targets, whose importance has been pointed out for a long time. These are, respectively; political stability, economic stability and negotiations for access to EU.

These positive development experienced have carried the economic indicators to higher levels and a period for economic revival has started.

During this period, the inflation in the country went down to single-digit figures, which we have not witnessed over 30 years. The WPI (wholesale price index) and CPI (consumer price index) increased, respectively, by 13.84% and %9.32, while Euro and the currencies of the European Union countries gained value by 4.0 % and Dollar lost considerable value, especially in comparison with the currencies of the European Union countries, with the decrease of 5.9 % .

As import and export rates increased, domestic demand was also revived. In 2004, the export of the sector increased by 53.7% in comparison with the year 2003 and rose up to USD 10 billion.

Within the framework of this global view, we may summarize the developments in the sector for the year 2004 according to the OSD data as follows.

- The manufacture in the sector increased by 54% in comparison with the previous year and was realized as 823.408 items.
- The manufacture of the Light Commercial Vehicles Group, including our company, increased (especially for export and for minibuses) as follows;

Minibus	107%,
Midi-bus	46%,
Pickup truck	54%.

- Also, the following increases were observed for the heavy-duty commercial vehicles;

Small trucks	43%,
Large Trucks	75%,
Buses	16%.

- For automobiles, the manufactured increased by 52%, emphasis being on the manufacture for export.

# Otokar

For the light commercial vehicles group, sale of the increased by 80%, domestic sales increased by 75% and import sales increased by 87% in comparison with the year 2003 and the market share of import became 45 %.

## MANUFACTURE AND SALES

In parallel with the developments summarized above, 2004 was also a very successful year for Otokar. The comparative figures for manufacture and sales as to product types are given below.

	<u>2004</u>		<u>2003</u>		<u>Change</u>		<u>Change %</u>	
	<u>Manu. Sale</u>	<u>Manu. Sale</u>	<u>Manu. Sale</u>	<u>Manu. Sale</u>	<u>Manu. Sale</u>	<u>Manu. Sale</u>	<u>Manu. Sale</u>	<u>Manu. Sale</u>
Minibus	1.415	1.416	1.237	1.236	178	180	14	15
Land Vehicles	607	563	565	551	42	12	7	2
Armored Vehicles	115	127	99	91	16	36	16	40
Small Buses	1.108	1.108	613	629	495	479	81	76
Trailer	1.164	1.157	860	865	304	292	35	34
<b>TOTAL</b>	<b>4.409</b>	<b>4.371</b>	<b>3.374</b>	<b>3.372</b>	<b>1.035</b>	<b>999</b>	<b>31</b>	<b>30</b>

We observe considerable increases such as 31% for manufacture and 30% for sales when we consider the year 2004 in general. This positive development has also been reflected on our balance sheet.

The financial statements issued according to the according to the provisions of the Circular issued by the Capital Market Board under Serial No: XI and No: 25 and the International Financial Reporting Standards reveal that the company turnover increased actually by 29% (The amounts are expressed in terms of the purchasing power of the Turkish Lira as of the date 31<sup>st</sup> December 2004).

	<u>2004 (NTL)</u>	<u>2003 (NTL)</u>	<u>Change %</u>
Domestic Sales	254.497.124	178.337.737	43
Foreign sales	35.249.568	46.490.068	(24)
<b>TOTAL</b>	<b>289.746.692</b>	<b>224.827.805</b>	<b>29</b>

# Otokar

In 2004, our capacity use became 76% for minibuses, 53% for midi-buses, 17% for land vehicles, 29% for armored vehicles and 100% for trailers.

Our foreign sales, on the other hand, amounted to USD 23.660.129 and our export turnover increased by 12% as based on USD in comparison with USD 26.801.004, export amount of the previous year.

2004 was the year when the creativity, research and development activities of Otokar were exhibited to the world in the realms of the commercial vehicles and defense industry. Otokar participated in Eurosatory 2004, a leading fair of the world defense industry, and IAA 2004, with vehicles designed and owned under its trademark.

## INVESTMENTS

The investment costs spent throughout the period amounted approximately to USD 4,9 million; and the main item for these costs consists of Otokar R&D Center as well as purchase of patterns, apparatuses and administrative and operational fixtures for the construction of new vehicle models.

In order to attain the rapid growth with the vehicles, whose intellectual property rights are owned by Otokar, an important resolution was made in R&D realm as well and the first steps for "Otokar R&D Center" were taken in 2004. It is aimed to equip the center with hydraulic highway simulator, miscellaneous test equipment and the computer systems to create and evaluate the information. It is intended that Otokar, becoming capable of designing vehicles very fast and offering to the market by means of "Otokar R&D Center", will provide the testing facilities for the entire Turkish automotive industry, as a company leading the Turkish automotive industry for 40 years.

## ADMINISTRATIVE ACTIVITIES

*The senior management staff employed in our company in 2004 and their task definitions are as follows.*

<b><u>Name &amp; Surname</u></b>	<b><u>Task</u></b>
Kudret ÖNEN	General Director
Hüseyin ODABAŞ	Ass. To General Director - Finance
Erdal AKIŞ	Ass. To General Director - Manufacture
Serdar GÖRGÜÇ	Ass. To General Director - Technical
H.Basri AKGÜL	Ass. To General Director - Marketing & Sales

# Otokar

As of the date 31.12.2004, our staff consists of total 869 people. 244 of them are managers and officers, while 625 of them are workers. No conflicts and labor movements were observed during the period.

*Our company is subject to the Collective Contract of the Group signed between Turkish Metal Workers' Labor Union and Turkish Employers' Association of Metal Industrialists on 12.11.2004 to come into force as of the date 01.09.2004. The contract is valid for two years and will expire on 31.08.2006.*

The associations and foundations were donated NTL 800.473, such amount being tax-exempt.

Otokar successfully completed its attempts for New Turkish Lira, which started in March 2004, by late October. Through the project process, all the applications were reviewed, the YTL-compliant versions of the applications were prepared and all the applications developed were tested in details, thus conversion into New Turkish Lira was successfully attained on 1/1/2005.

## FINANCIAL RESULTS

As we also stated above, in 2004, our company provided the financial statements for the years 2003 and 2004 to the General Assembly and the public under the circular by the Capital Market Board with Serial No: XI, No: 25 and according to the International Financial Reporting System. Our financial reports, which were prepared according to the Generally Recognized Accounting Principles and Standards issued by the Capital Market Board during the past years, have been issued and published comparatively according to the "International Financial Reporting Standards" since 2003.

The financial statements, explanatory notes and ratios showing the results of our activities in 2004 are provided for your examination in other sections of our report.

Our company increased its turnover by 29% to NTL 289.746.692 in 2004, its gross profit from sales by 25% to NTL 66.536.867 and its operational profit by 85% from NTL 14.402.033 to NTL 26.699.483.

According to the results found under the International Financial Reporting Standards, our company ended the year 2004 with a profit before tax amount of NTL 29.606.814, with due provisions reserved for depreciation (NTL 7.305.110), and severance pay and guarantee amounts (NTL 376.312).

Our company will pay a legal tax of NTL 9.569.157 YTL in 2004 and the provisions for tax for the year 2004 were reflected as NTL 8.918.709 to the financial statements due to differences arising out of correction according to inflation and the deferred tax income. Our company gained NTL 20.688.105 as profit in 2004, after reserving the necessary provisions for tax.

# Otokar

We hereby request your approval for distributing the gross dividends amounting to NTL 14.400.000, which is the amount left after deducting the first level of legal reserves from NTL 20.688.105 that is the basic amount of profit for distribution remaining after deducting our tax liabilities, to our shareholders in cash; and for reserving the second level of legal reserves from the amount of dividends payable in cash under article 446/3 of the Turkish Commercial Code and for transferring the remaining amount to extraordinary reserves.

In case this proposal of ours is approved, our shareholders will be paid gross dividends amounting to NTL 14.400.000 YTL. (being TL 600,000 as gross amount and TL 545,45 as net amount for each share of TL 1.000) in cash.

Also, we hereby request that the date for distributing dividends be determined as 16.05.2005.

We have thus provided the summary of our activities in the year 2004 and their outcome for your information.

Esteemed shareholders,

Our Board of Directors have expired its term of office as of today. During this meeting, the members of the Board of Directors to serve throughout the next period will be elected. We would like to thank you for the confidence, kind regards and help conferred on us and respectfully salute your Esteemed Committee.

25<sup>th</sup> March 2005

*Selçuk GEZDUR*  
Chairman of the Board of Directors

## **2.3 AUDIT REPORT**

Istanbul, 25<sup>th</sup> March 2005

**To the Esteemed Presidential Board of General Assembly of  
Otokar Otobüs Karoseri Sanayi A.Ş.  
ISTANBUL**

The conclusions of our audit for 2004 account period are herewith provided for your eminent considerations.

1. The company completed a successful period in terms of the scope of activities undertaken under the Capital Market Law and the relevant legislation.
2. It has been found that the books and records that have to be maintained under the Turkish Commercial Code and the relevant legislation are maintained according to the legal requirements and that the documentation proving the records is preserved properly.
3. In our opinion, the financial statements issued as of the date 31.12.2004 according to the provisions of the Circular “on Accounting Principles in Capital Market” by the Capital Market Board under Serial No: XI and No: 25 and the financial statements issued according to historical cost accounting, with whose contents we agree, truly reflect the financial standing of the Company as of the said date and the outcome of the activities undertaken during the said period.
4. It has been found that the resolutions relating to the company have been duly registered in the resolution book.

*As a result, we herewith request due discharge for the company actions summarized in the report issued by the Board of Directors and the financial statements containing corrections according to inflation issued under the Capital Market Legislation as well as the financial statements issued according to historical cost accounting as well as for the Board of Directors for the eminent consideration of the General assembly.*

Best regards,

**Auditor**

**Dr. Füsun AKKAL**

**Auditor**

**Metin UTKAN**

## **2.4 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 2004 and the related statements of income and of cash flows for the year then ended, all expressed in the New Turkish Lira in the equivalent purchasing power of the Turkish Lira as of 31 December 2004. 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 2004 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, 8 March 2005

## 2.5 BALANCE SHEET

### BALANCE SHEETS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

	Notes	2004	2003
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	4.900.809	9.754.617
Trade receivables	5	105.069.026	70.041.165
Due from related parties	6	2.887.849	14.504.924
Inventories	7	37.837.518	21.385.970
Other current assets	8	729.899	2.046.962
<b>Total current assets</b>		<b>151.425.101</b>	<b>117.733.638</b>
<b>Non-current assets:</b>			
Trade receivables	5	16.039.879	26.028.351
Available for sale investments	9	2.630.592	2.681.902
Property, plant and equipment	10	44.010.175	44.797.075
Intangible assets	11	449.119	253.189
Other non-current assets		4.066	4.629
<b>Total non-current assets</b>		<b>63.133.831</b>	<b>73.765.146</b>
<b>Total assets</b>		<b>214.558.932</b>	<b>191.498.784</b>

The accompanying notes form an integral part of these financial statements

# Otokar

## BALANCE SHEETS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

	Notes	2004	2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Borrowings	12	46.336.792	51.453.893
Trade payables	13	31.911.205	24.740.277
Due to related parties	6	3.532.376	5.052.295
Other current liabilities	14	18.075.578	11.545.571
Taxes on income	15	-	4.397.780
<b>Total current liabilities</b>		<b>99.855.951</b>	<b>97.189.816</b>
<b>Non-current liabilities:</b>			
Reserve for employment termination benefits	16	3.941.085	3.393.066
Deferred tax liabilities	15	1.050.928	2.159.134
Other non-current liabilities		499.050	232.955
<b>Total non-current liabilities</b>		<b>5.491.063</b>	<b>5.785.155</b>
<b>Total liabilities</b>		<b>105.347.014</b>	<b>102.974.971</b>
<b>Shareholders' equity:</b>			
Share capital	17	24.000.000	24.000.000
Adjustment to share capital	17	52.743.030	52.743.030
Total paid-in capital		76.743.030	76.743.030
Retained earnings	18	32.468.888	11.780.783
<b>Total shareholders' equity</b>		<b>109.211.918</b>	<b>88.523.813</b>
<b>Total liabilities and shareholders' equity</b>		<b>214.558.932</b>	<b>191.498.784</b>
<b>Commitments, contingent assets and liabilities</b>	24		

Financial statements at and for the year ended 31 December 2004 were approved by the Board of Directors at 8 March 2005.

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 New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### 2.6 STATEMENTS OF INCOME

	Notes	2004	2003
Net sales	19	289.746.692	224.827.805
Cost of sales		(223.209.825)	(171.404.260)
<b>Gross profit</b>		<b>66.536.867</b>	<b>53.423.545</b>
Marketing and selling expenses	20	(24.276.949)	(23.916.163)
General administrative expenses	21	(12.229.607)	(13.344.351)
Research and development expenses		(4.159.087)	(2.518.231)
Other operating income-net		828.258	757.233
<b>Operating profit</b>		<b>26.699.483</b>	<b>14.402.033</b>
Financial income-net	22	5.236.412	1.237.468
Loss on net monetary position	2a	(2.329.081)	(1.466.397)
<b>Income before taxation on income</b>		<b>29.606.814</b>	<b>14.173.104</b>
Taxation on income	15	(8.918.709)	(4.928.464)
<b>Net income</b>		<b>20.688.105</b>	<b>9.244.640</b>
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 per share (TL)	3	862,00	385,19

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 New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

#### **2.7 STATEMENT OF CHANGES IN SHAREHOLDERS'S EQUITY**

	Share capital	Adjustment to share capital	Retained earnings	Total shareholders' equity
<b>Balances at 31 December 2002</b>	<b>7.834.774</b>	<b>68.774.665</b>	<b>7.847.506</b>	<b>84.456.945</b>
Dividends paid	-	-	(5.177.772)	(5.177.772)
Increase in share capital	16.165.226	(16.031.635)	(133.591)	-
Net income for the year	-	-	9.244.640	9.244.640
<b>Balances at 31 December 2003</b>	<b>24.000.000</b>	<b>52.743.030</b>	<b>11.780.783</b>	<b>88.523.813</b>
Net income for the year	-	-	20.688.105	20.668.105
<b>Balances at 31 December 2004</b>	<b>24.000.000</b>	<b>52.743.030</b>	<b>32.468.888</b>	<b>109.211.918</b>

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 New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### 2.8 STATEMENT OF CASH FLOWS

	Notes	2004	2003
<b>CASH PROVIDED FROM OPERATING ACTIVITIES</b>			
Net income		20.688.105	9.244.640
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization		7.305.110	7.617.611
Increase in reserve for employment termination benefits		613.412	736.151
Increase in deferred tax liabilities		(1.108.206)	(3.785.442)
Provision for income taxes		10.026.915	8.521.834
Provision for doubtful receivables	5	(137.670)	396.070
Interest expense-net		(1.461.128)	15.307.474
Deferred financial income		(2.988.144)	(955.682)
Fair value increase	9	51.310	(931.883)
Inflation effect on non-operating activities		209.981	(1.070.424)
<b>Net cash provided by operating activities before changes in operating assets and liabilities:</b>			
(Increase)/decrease in trade receivables		(21.700.652)	10.969.004
Decrease/(increase) in related party balances		10.052.513	(9.674.934)
Decrease/(increase) in inventories		(16.451.549)	4.467.959
(Increase)/decrease in other current assets		(8.569.373)	949.325
Decrease in other non-current assets		563	1.368
Decrease in trade payables		7.002.651	5.751.847
Increase in other current liabilities		6.847.286	9.742.250
Increase/(decrease) in other non-current liabilities		266.095	(160.928)
Taxes paid		(4.855.538)	(9.710.981)
Employment termination benefits	17	(275.374)	(333.875)
Inflation effect on operating activities		(619.760)	8.509.393
<b>Net cash provided by operating activities</b>		<b>4.896.547</b>	<b>55.590.777</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment	10	(6.757.977)	(3.568.659)
Proceeds from sale of property, plant and equipment		387.086	-
Purchase of intangible assets	11	(343.250)	(384.560)
Dividends paid		-	(5.177.772)
Interest received		2.558.390	3.348.697
<b>Net cash used in investing activities</b>		<b>(4.155.751)</b>	<b>(5.782.294)</b>
<b>Financing activities:</b>			
Decrease in borrowings		(4.777.990)	(14.902.004)
Interest paid		(1.436.375)	(18.656.171)
Inflation effect on financing activities		(390.707)	(7.755.622)

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

<b>Net cash used in financing activities</b>		<b>(6.605.072)</b>	<b>(41.313.797)</b>
Inflation effect on cash and cash equivalents		1.010.468	316.655
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(5.864.275)</b>	<b>8.494.686</b>
<b>Cash and cash equivalents at the beginning of the year</b>	4	<b>9.754.617</b>	<b>943.276</b>
<b>Cash and cash equivalents at the end of the year</b>	4	<b>4.900.809</b>	<b>9.754.617</b>

The accompanying notes form an integral part of these financial statements

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### 2.9 NOTES TO THE FINANCIAL STATEMENTS

#### 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 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/Istanbul

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 2004, the shares quoted on the ISE are approximately 29.91% of the total shares. At 31 December 2004, the principal shareholders and their respective shareholdings in the Company are as follows (Note 17):

	%
<i>Koç Holding A.Ş.</i>	42,92
<i>Ünver Holding A.Ş.</i>	24,81
<i>Others</i>	32,27
	<b>100,00</b>

#### 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 New 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

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

The restatement for the changes in the general purchasing power of the Turkish lira at 31 December 2004 is based on IAS 29 "Financial Reporting in Hyperinflationary Economies", which 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 years be restated in the same terms. The main reasons required for implementation of IAS 29; the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency and amounts of local currency held are immediately invested to maintain purchasing power; the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency and prices may be quoted in that currency; sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short; interest rates, wages and prices are linked to a price index; and the cumulative inflation rate over three years is approaching, or exceeds, 100%. The restatement was calculated by means of conversion factor derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Certain information in the financial statements has also been presented on a historical basis for information purposes.

The indices and conversion factors used to restate these financial statements at 31 December 2004 are as follows:

Cumulative three year Dates	Index	Conversion factor	inflation rates (%)
31 December 2004	8.403,8	1,000	69,7
31 December 2003	7.382,1	1,138	181,1
31 December 2002	6.478,8	1,139	227,3

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 asset position of the Company is included in the statement of income as loss on net monetary position.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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#### **New Turkish Lira**

Through the enactment of the Law numbered 5083 concerning the “Currency of the Republic of Turkey” in the Official Gazette dated 30 January 2004, New Turkish Lira (“YTL”) and the New Kuruş (“YKr”) have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The hundredth part of the YTL is the YKr (1 YTL=100YKr). When the prior currency, Turkish Lira (“TL”), values are converted into the YTL, one million TL (1,000,000 TL) is equivalent to one YTL (1 YTL). Accordingly, currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL.

All references made to Turkish Lira or Lira in laws, other legislation, administrative transactions, court decisions, legal transactions, negotiable instruments and other documents that produce legal effects as well as payment and exchange instruments shall be considered to have been made to YTL at the conversion rate indicated as above. Consequently, effective from 1 January 2005, the YTL replaces the TL as a unit of account in keeping and presenting the books, accounts and financial statements.

As stated in the announcement of Capital Markets Board dated 30 November 2004, financial statements of the period ending 31 December 2004, including the prior period financial data will be used for comparison purposes, are demonstrated in YTL, and prior period financial statements are conveyed in YTL currency for only comparative purposes.

#### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 (Note 4).

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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### 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 (Note 5).

### Inventories

Inventories are valued at the lower of cost, restated to equivalent purchasing power at 31 December 2004 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 (Note 7).

### 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.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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### 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 2004. 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 (Note 10).

### 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 (Note 11).

### 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 (Note 12).

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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### 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 (Note 15).

### 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 16).

### 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 19).

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

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.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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### **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 (Note 17).

### **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.

#### ***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 24).

#### ***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 23).

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS

### AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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#### *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.

#### *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.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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### 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.

	<b>2004</b>	<b>2003</b>
Net income	20.688.105	9.244.640
Weighted average number of ordinary shares in issue	24.000.000.000	24.000.000.000
Earnings per share (expressed in full TL per share)	862,00	385,19

### 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

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 4 - CASH AND CASH EQUIVALENTS

	2004	2003
Cash	-	6.789
Banks		
-demand deposits	2.851.920	4.982.979
-time deposits	2.014.956	4.750.489
Other cash equivalents	33.933	14.360
	<b>4.900.809</b>	<b>9.754.617</b>

Due dates of time deposits are less than a year. All time deposits are denominated in Turkish Lira and interest rates vary between 19,5%-21% (2003: 25%-26%).

### NOTE 5 - TRADE RECEIVABLES

	2004	2003
Trade receivables	71.265.752	33.233.533
Cheques and notes receivables	37.603.245	39.201.936
	108.868.997	72.435.469
Less: Provision for doubtful receivables	(691.586)	(553.915)
Less: Unearned credit finance income	(3.108.385)	(1.840.389)
<b>Short term trade receivables</b>	<b>105.069.026</b>	<b>70.041.165</b>
Cheques and notes receivables	16.039.879	26.028.351
<b>Long term trade receivables</b>	<b>16.039.879</b>	<b>26.028.351</b>

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

	2004	2003
1 January	553.914	157.845
Recoveries	(75.693)	(32.364)
Net provision for the year	282.574	457.113
Monetary gain	(69.209)	(28.679)
<b>31 December</b>	<b>691.586</b>	<b>553.915</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 6 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

i) Balances with the related parties at 31 December:

<b><u>Bank balances:</u></b>	<b>2004</b>	<b>2003</b>
Koçbank A.Ş.		
- Demand deposits	961.142	3.157.505
- Time deposits	2.850.000	3.642.888
	<b>3.811.142</b>	<b>6.800.393</b>
<b><u>Due from related parties:</u></b>	<b>2004</b>	<b>2003</b>
Ram Dış Ticaret A.Ş.	2.915.103	14.880.784
Koç Finansal Kiralama A.Ş.	63.655	-
Other	1.770	1.087
	2.980.528	14.881.871
Less: Unrealized credit finance income	(92.679)	(376.947)
	<b>2.887.849</b>	<b>14.504.924</b>
<b><u>Borrowings:</u></b>	<b>2004</b>	<b>2003</b>
Koçbank A.Ş.	637.166	-
	<b>637.166</b>	<b>-</b>
<b><u>Due to related parties:</u></b>	<b>2004</b>	<b>2003</b>
Kofisa Trading Company S.A.	1.954.398	3.542.256
Ram Dış Ticaret A.Ş.	448.325	574.267
Setur Servis Turistik A.Ş.	231.136	72.190
Koç Holding A.Ş.	163.878	118.707
Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş.	136.114	178.149
Beko Ticaret A.Ş.	118.668	
Otoyol Sanayi A.Ş.	89.850	80.005
Mako Elektrik San. Tic. A.Ş.	82.292	64.572
Tekersan Jant Sanayi A.Ş.	79.054	95.292
Oltaş Otomotiv Lastikleri Tevzi A.Ş.	58.903	11.115
Ram Sigorta Aracılık Hizmetleri A.Ş.	56.037	75.147
Other	176.386	240.595
	3.595.041	5.052.295
Less: Unrealized financial charges	(62.665)	-
	<b>3.532.376</b>	<b>5.052.295</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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

<b>Product sales:</b>	<b>2004</b>	<b>2003</b>
Ram Dış Ticaret A.Ş.	16.689.875	37.064.007
Koç Finansal Kiralama A.Ş.	12.878.820	6.311.452
Aygaz A.Ş.	567.669	671.705
Ford Otomotiv Sanayi A.Ş.	37.300	24.593
Demir Export	-	15.203
Other	13.970	6.131
	<b>30.187.634</b>	<b>44.093.091</b>

<b>Fixed asset purchases:</b>	<b>2004</b>	<b>2003</b>
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	249.190	274.037
Otokoç Otomotiv Tic. ve San. A.Ş.	80.168	174.633
Birmot A.Ş.	53.813	112.426
Koç Bryce A.Ş.	1.158	-
	<b>384.329</b>	<b>561.096</b>

<b>Inventory purchases:</b>	<b>2004</b>	<b>2003</b>
Kofisa Trading Company S.A.	9.751.145	8.454.227
Ram Dış Ticaret A.Ş.	3.834.948	2.197.690
Tekersan Jant Sanayi A.Ş.	1.135.374	761.452
Mako Elektrik San. Tic. A.Ş.	597.858	543.238
Bursa Gaz ve Ticaret .A.Ş.	563.817	799.078
Oltaş Otomotiv Lastikleri Tevzi A.Ş.	556.481	135.599
Bos Birleşik Oksijen San. A.Ş.	471.870	396.575
Other	386.441	948.923
	<b>17.297.934</b>	<b>14.236.782</b>

<b>Services received:</b>	<b>2004</b>	<b>2003</b>
Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş.	1.607.151	660.845
Setur Servis Turistik A.Ş.	1.137.209	354.632
Koç Holding A.Ş.	968.105	1.041.808
Ram Sigorta Aracılık Hizmetleri A.Ş.	720.258	753.206
Birmot A.Ş.	118.479	-
Koçnet Haberleşme Teknoloji ve İletişim Hizm. A.Ş.	109.143	112.589
Other	240.380	234.401
	<b>4.900.725</b>	<b>3.157.481</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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

<b><u>Interest income:</u></b>	<b>2004</b>	<b>2003</b>
Koçbank A.Ş.	342.880	272.143
Ram Dış Ticaret A.Ş.	231.171	632.144
	<b>574.051</b>	<b>904.287</b>

<b><u>Foreign exchange income:</u></b>	<b>2004</b>	<b>2003</b>
Ram Dış Ticaret A.Ş.	3.588.298	4.452.370
Koçbank A.Ş.	377.680	845.422
Kofisa Trading Company S.A.	248.104	278.986
	<b>4.214.082</b>	<b>5.576.778</b>

<b><u>Interest expenses:</u></b>	<b>2004</b>	<b>2003</b>
Koçbank A.Ş.	514.566	125.558
	<b>514.566</b>	<b>125.558</b>

<b><u>Foreign exchange losses:</u></b>	<b>2004</b>	<b>2003</b>
Ram Dış Ticaret A.Ş.	3.463.415	4.768.051
Kofisa Trading Company S.A.	369.014	534.290
Koçbank A.Ş.	330.732	901.514
	<b>4.163.161</b>	<b>6.203.855</b>

Sales commissions paid to Ram Dış Ticaret A.Ş. for exports amount to YTL4.398.201 as of 31 December 2004.

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

<b><u>Dividends paid:</u></b>	<b>2004</b>	<b>2003</b>
Koç Holding A.Ş.	-	2.222.332
Ünver Holding A.Ş.	-	1.284.722
Otoyol Sanayi A.Ş.	-	45.500
Otoyol Pazarlama A.Ş.	-	45.500
Ford Otosan Sanayi A.Ş.	-	30.333
Other	-	1.549.385
	-	<b>5.177.772</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 7 - INVENTORIES

	2004	2003
Raw materials	12.776.844	10.761.855
Finished goods	4.428.554	3.161.025
Semi-finished goods	1.502.526	2.189.395
Trade goods	4.071.690	1.809.939
Order advances given	6.852.663	661.342
Goods in transit	8.205.241	2.802.414
	<b>37.837.518</b>	<b>21.385.970</b>

### NOTE 8 - OTHER CURRENT ASSETS

	2004	2003
Value added tax receivable	339.869	1.833.348
Prepaid expenses	271.530	127.369
Taxes and funds deductible	61.144	50.437
Receivable from personnel	2.859	493
Other	54.497	35.315
	<b>729.899</b>	<b>2.046.962</b>

### NOTE 9 - AVAILABLE FOR SALE INVESTMENTS

	2004		2003	
	YTL	%	YTL	%
<b>Investments</b>				
Entek Elektrik Üretimi				
Otoprodüktör Grubu A.Ş.	2.630.592	0,09	2.681.902	0,09
	<b>2.630.592</b>		<b>2.681.902</b>	

Available for sale investments are measured at fair value and accordingly YTL51.310 of loss and YTL931,883 of gain are recorded as gain in the financial statements as at 31 December 2004 and 2003, respectively.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment and related accumulated depreciation during the year ended 31 December 2004 are as follows:

	1 January 2004	Additions	Disposals	Transfers	31 December 2004
<b>Cost:</b>					
Land	5.370.676	-	-	-	5.370.676
Land improvements	4.097.283	-	-	166.362	4.263.645
Buildings	29.633.777	-	-	1.675.829	31.309.606
Machinery and equipment	84.841.679	1.372.726	(1.321.912)	2.441.549	87.334.042
Motor vehicles	3.510.124	163.507	(302.769)	-	3.370.862
Furniture and fixtures	14.901.457	724.124	(277.494)	9.417	15.357.504
Special costs	1.089.375	-	-	-	1.089.375
Construction-in-progress	-	2.538.567	(203.500)	(2.335.067)	-
Advances given	169.293	1.959.053	(109.425)	(1.958.090)	60.831
	<b>143.613.664</b>	<b>6.757.977</b>	<b>(2.215.100)</b>	-	<b>148.156.541</b>
<b>Accumulated depreciation:</b>					
Land improvements	1.127.787	168.796	-	-	1.296.583
Buildings	10.387.413	1.190.937	-	-	11.578.350
Machinery and equipment	69.985.106	4.504.189	(1.321.912)	-	73.167.383
Motor vehicles	3.109.888	159.052	(239.833)	-	3.029.107
Furniture and fixtures	13.177.601	1.134.816	(266.268)	-	14.046.149
Special costs	1.028.794	-	-	-	1.028.794
	<b>98.816.589</b>	<b>7.157.790</b>	<b>(1.828.013)</b>	-	<b>104.146.366</b>
<b>Net book value</b>	<b>44.797.075</b>				<b>44.010.175</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

Movements in property, plant and equipment and related accumulated depreciation during the year ended 31 December 2004 are as follows:

	<b>1 January 2003</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>31 December 2003</b>
<b>Cost:</b>					
Land	5.370.676	-	-	-	5.370.676
Land improvements	3.763.585	-	-	333.698	4.097.283
Buildings	29.633.777	-	-	-	29.633.777
Machinery and equipment	82.551.160	1.280.425	(269.254)	1.279.348	84.841.679
Motor vehicles	3.653.672	310.429	(453.977)	-	3.510.124
Furniture and fixtures	15.450.139	371.575	(941.001)	20.744	14.901.457
Special costs	1.089.375	-	-	-	1.089.375
Construction in progress	17.201	635.561	-	(652.762)	-
Advances given	-	1.150.321	-	(981.028)	169.293
	<b>141.529.585</b>	<b>3.748.311</b>	<b>(1.664.232)</b>	<b>-</b>	<b>143.613.664</b>
<b>Accumulated depreciation:</b>					
Land improvements	971.781	156.006	-	-	1.127.787
Buildings	9.270.531	1.116.882	-	-	10.387.413
Machinery and equipment	65.630.739	4.623.620	(269.252)	-	69.985.106
Motor vehicles	3.352.142	180.868	(423.123)	-	3.109.888
Furniture and fixtures	12.518.722	1.611.312	(952.432)	-	13.177.601
Special costs	990.843	37.951	-	-	1.028.794
	<b>92.734.758</b>	<b>7.726.639</b>	<b>(1.644.808)</b>	<b>-</b>	<b>98.816.589</b>
<b>Net book value</b>	<b>48.794.827</b>				<b>44.797.075</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 11 - INTANGIBLE ASSETS

Movements in intangible assets and related accumulated amortization during the year ended 31 December 2004 are as follows:

	<u>1 January 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2004</u>
<b>Cost:</b>				
Other intangible assets	1.434.534	343.250	-	1.777.784
<b>Accumulated amortization:</b>				
Other intangible assets	(1.181.345)	(147.320)	-	(1.328.664)
<b>Net book value</b>	<b>253.189</b>	<b>195.930</b>	<b>-</b>	<b>449.119</b>

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

	<u>1 January 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December</u> <u>2003</u>
<b>Cost:</b>				
Other intangible assets	1.210.199	224.335	-	1.434.534
<b>Accumulated amortization:</b>				
Other intangible assets	(1.046.097)	(135.248)	-	(1.181.345)
<b>Net book value</b>	<b>164.102</b>	<b>89.087</b>	<b>-</b>	<b>253.189</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 12 - BORROWINGS

	2004		
	Interest rate	Original currency	YTL
<b>Short-term bank borrowings:</b>			
EURO borrowings	3,84-4,18	15.788.526	28.842.478
GBP borrowings	7,14	3.589.690	9.248.837
USD borrowings	3,32-3,38	5.668.960	7.608.311
TL borrowings	-	637.166	637.166
			<b>46.336.792</b>

	2003		
	Interest rate	Original currency	YTL
<b>Short term bank borrowings:</b>			
GBP borrowings	5,09-6,02	11.793.706	33.250.924
USD borrowings	3,47-3,59	6.653.648	10.572.792
EURO borrowings	4,23-4,47	3.577.082	7.106.210
TL borrowings	-	523.967	523.967
			<b>51.453.893</b>

### NOTE 13 - TRADE PAYABLES

	2004	2003
Trade payables	32.415.829	25.135.872
Notes payable	40.228	34.835
Other	6.275	7.430
	32.462.332	25.178.137
Less: Unrealized financial charge	(551.127)	(437.860)
	<b>31.911.205</b>	<b>24.740.277</b>

### NOTE 14 - OTHER CURRENT LIABILITIES

	2004	2003
Advances received	12.470.510	4.674.339
Taxes and funds payable	2.729.476	2.806.782
Expense accruals	1.430.621	2.007.875
Payable to personnel	1.390.472	1.865.555
Other	54.499	191.020
	<b>18.075.578</b>	<b>11.545.571</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 15 - TAXATION ON INCOME

	2004	2003
Corporation taxes currently payable	9.569.157	8.521.834
Less: Prepaid taxes	(9.886.436)	(4.124.054)
<b>Tax (receivable)/payable-net</b>	<b>(317.279)</b>	<b>4.397.780</b>
Deferred tax payable-net	1.050.928	2.159.134
	<b>733.649</b>	<b>6.556.914</b>

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

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.

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 10%. 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 33% 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 assets 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.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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Capital expenditures, with some exceptions, over YTL6.000 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.

In accordance with the Tax Law 5228 item 28.9 dated 16 July 2004, 40% of the research and development expenditures on technology and knowledge research made by the Company itself with effect from 31 July 2004 are exempted from corporate tax. Expenditures made before 31 July 2004 will be subject to previous application. Such exemptions are not subject to withholding taxes.

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.

The taxation on income for the years ended 31 December 2004 and 2003, expressed in terms of the purchasing power of the Turkish Lira at 31 December 2004, is summarised as follows:

	<b>2004</b>	<b>2003</b>
Taxes on income		
- Current year corporation tax	10.026.915	8.713.906
- Deferred	(1.108.206)	(3.785.442)
<b>Total tax expense</b>	<b>8.918.709</b>	<b>4.928.464</b>

### **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.

Deferred income taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in coming years under the liability method using a principal tax rate of 30% at 31 December 2004.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 31 December 2004 and 2003 using the enacted future tax rates are as follows:

	<b>Cumulative temporary differences (liabilities)</b>		<b>Deferred tax assets /</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net difference between the tax base and the carrying value of property. plant and equipment and intangible assets	10.900.148	12.547.600	(3.270.044)	(3.764.280)
Unearned credit finance charges	613.792	437.860	(184.138)	(144.494)
<b>Deferred tax liabilities</b>			<b>(3.454.182)</b>	<b>(3.908.774)</b>
Reserve for employment termination benefits	3.941.085	3.393.066	1.182.326	1.017.920
Unearned credit finance income	3.201.064	2.217.336	960.319	731.720
Net difference between the tax base and the carrying value of inventories	868.697	-	260.609	-
<b>Deferred tax assets</b>			<b>2.403.254</b>	<b>1.749.640</b>
<b>Deferred tax liabilities-net</b>			<b>(1.050.928)</b>	<b>(2.159.134)</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 16 - 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 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 YTL1.648,90 (31 December 2003: YTL1.389,95) for each year of service as at 31 December 2004.

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:

	2004	2003
Discount rate (%)	5,45	6,00
Turnover rate to estimate the probability of retirement (%)	95	95

The principal assumption is that maximum liability of YTL1.574,74 (31 December 2003: YTL 1.389,95) 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 YTL 1.648,90 (1 January 2004: YTL 1.485,43), which is effective from 1 January 2005, 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:

	2004	2003
1 January	3.393.066	2.990.790
Charge for the year	888.786	785.559
Monetary gain	(65.393)	(49.408)
Payments during the year	(275.374)	(333.875)
<b>31 December</b>	<b>3.941.085</b>	<b>3.393.066</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 17 - SHARE CAPITAL

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

Shareholders	2004		2003	
	YTL	Share %	YTL	Share %
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	23,91
Other	7.744.104	32,27	7.744.104	33,17
<b>Total</b>	<b>24.000.000</b>	<b>100.00</b>	<b>24.000.000</b>	<b>100.00</b>
Adjustment to share capital	52.743.030		52.743.030	
<b>Total</b>	<b>76.743.030</b>		<b>76.743.030</b>	

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

### NOTE 18 - 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:

	2004	2003
Legal reserves	830.700	2.873.548
Accumulated losses	-	-
	<b>830.700</b>	<b>2.873.548</b>
Historical amounts of dividends distributed during year from previous period's net income per statutory financial statements	-	4.537.127

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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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 30% 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 30% 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:

	<b>31 December 2004</b>	<b>31 December 2003</b>
Share capital	24.000.000	24.000.000
Legal reserves	830.700	2.873.548
Extraordinary reserves	-	8.525.974
Shareholders' equity restatement differences	63.693.113	73.934.372
Net income	20.688.105	9.244.640
Accumulated losses	-	(30.054.721)
<b>Total share capital</b>	<b>109.211.918</b>	<b>88.523.813</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

In accordance with the Extraordinary General Assembly decision dated 15 April 2004, the Company agreed to offset the accumulated deficit amounting to YTL26.400.790, expressed in the purchasing power of Turkish Lira at 31 December 2003, in the following way

IFRS net income for 2003	8.120.714
Extraordinary reserves	8.525.974
Legal reserves	2.042.848
Restatement differences on shareholders' equity	7.711.254
	<b>26.400.790</b>

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

	<b>Historical values</b>	<b>Restated amount</b>	<b>Shareholders' equity restatement differences</b>
Share capital	24.000.000	76.743.030	52.743.030
Legal reserves (remaining after offset)	830.700	945.671	114.971
Offsetting difference (*)	-	10.835.112	10.835.112
	<b>24.830.700</b>	<b>88.523.813</b>	<b>63.693.113</b>

(\*) Inflation correction differences amounting to YTL10.835.112 which is the remaining balance of equity accounts zeroed by offsetting is shown under "Restatement Differences of Shareholders' Equity" account.

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 19- NET SALES

	2004	2003
Domestic sales	254.678.319	178.492.596
Foreign sales	35.249.568	46.490.068
Gross sales	289.927.887	224.982.664
Less: Sales returns and discounts	(181.195)	(154.859)
<b>Net sales</b>	<b>289.746.692</b>	<b>224.827.805</b>

Unit sales of the Company are as follows:

	1 Jan-31 December 2004	1 Jan-31 December 2003
Minibus	1.416	1.236
Bus	1.108	629
Land Rover	563	551
Land Rover - Armoured	127	91
Trailer	1.157	865
	<b>4.371</b>	<b>3.372</b>

### NOTE 20 – SALES AND MARKETING EXPENSES

	2004	2003
Sales commissions	5.972.373	7.949.437
Sales campaign expenses	5.484.878	3.919.676
Personnel expenses	3.447.759	3.363.742
Guarantee expenses	2.496.813	3.077.974
Royalty expenses	1.077.413	980.327
Insurance expenses	968.136	704.304
Exhibition expenses	645.473	654.282
Advertisement expenses	407.800	263.073
Travel expenses	299.259	335.282
Collateral expenses	291.525	307.684
Other	3.185.520	2.360.382
	<b>24.276.949</b>	<b>23.916.163</b>

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

### NOTE 21 - GENERAL ADMINISTRATIVE EXPENSES

	2004	2003
Personnel expenses	4.975.736	5.525.145
Depreciation expense	1.492.576	1.704.422
Donations	836.295	582.259
Services rendered	804.437	688.157
Employment termination benefit	673.915	785.559
Legal and consulting expenses	405.069	394.275
Telecommunications expenses	366.736	376.446
Repair, maintenance and energy expenses	344.745	311.027
Taxes and funds	233.763	205.901
Mechanization expenses	223.987	248.258
Rent expenses	178.023	270.275
Insurance expenses	124.100	128.908
Travel expenses	101.788	119.514
Other	1.468.437	2.004.205
<b>Total general administrative expenses</b>	<b>12.229.607</b>	<b>13.344.351</b>

### NOTE 22 - FINANCIAL INCOME - NET

	2004	2003
<b>Financial income:</b>		
Foreign exchange gain	17.849.098	41.928.096
Credit finance income	5.215.564	400.872
Interest income	2.558.390	3.348.697
Fair value gain	-	931.884
	25.623.052	46.609.549
<b>Financial expenses:</b>		
Foreign exchange loss	(16.962.562)	(26.745.262)
Interest expenses	(2.925.290)	(18.437.479)
Credit finance expense	(444.646)	(189.340)
Fair value loss	(54.142)	-
	(20.386.640)	(45.372.081)
<b>Financial income-net</b>	<b>5.236.412</b>	<b>1.237.468</b>

### NOTE 23 - FOREIGN CURRENCY POSITION

Assets and liabilities denominated in foreign currency at 31 December 2004 and 2003 are in as follows:

	2004	2003
Assets	66.224.455	91.329.055
Liabilities	80.471.893	71.953.945

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

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

<b>Net foreign currency position</b>		<b>(14.247.438)</b>		<b>19.375.110</b>	
<b>Assets:</b>	<b>Foreign currency type</b>	<b>2004</b>		<b>2003</b>	
		<b>Foreign currency amount</b>	<b>YTL</b>	<b>Foreign currency amount</b>	<b>YTL</b>
Cash and cash equivalents	USD	432.399	580.323	787.733	1.057.217
	EURO	522.963	955.349	2.040.109	3.726.871
	GBP	166.664	429.410	358.243	923.014
		<b>1.965.082</b>		<b>5.707.102</b>	
Trade receivables	USD	71.225	95.591	56.466	75.783
	EURO	15.342.907	28.028.423	13.306.193	24.307.754
	GBP	6.740.814	17.367.716	13.809.586	35.580.398
		<b>45.491.730</b>		<b>59.963.935</b>	
Due from related parties	USD	-	-	499.666	670.602
	GBP	1.064.882	2.743.669	5.208.364	13.419.349
		<b>2.743.669</b>		<b>14.089.951</b>	
Long-term trade receivables	EURO	7.122.751	13.011.842	6.332.421	11.568.067
	GBP	1.169.079	3.012.132	-	-
		<b>16.023.974</b>		<b>11.568.067</b>	
		<b>66.224.455</b>		<b>91.329.055</b>	
<b>Liabilities:</b>					
Trade payables	USD	282.687	379.394	1.624.206	2.179.847
	EURO	932.760	1.703.966	3.237.401	5.914.084
	GBP	6.846.280	17.639.440	2.570.075	6.621.798
		<b>19.722.800</b>		<b>14.715.729</b>	
Due to related parties	EURO	1.069.848	1.954.398	1.939.049	3.542.255
		<b>1.954.398</b>		<b>3.542.255</b>	
Short-term borrowings	USD	5.668.960	7.608.311	7.877.797	10.572.792
	EURO	15.788.526	28.842.478	3.889.977	7.106.210
	GBP	3.589.690	9.248.838	12.905.462	33.250.924
		<b>45.699.627</b>		<b>50.929.926</b>	
Other current liabilities	USD	8.677.333	11.645.849	-	-

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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EURO	793.310	1.449.219	1.723	3.148
GBP	-	-	1.072.341	2.762.887
		<b>13.095.068</b>		<b>2.766.035</b>
		<b>80.471.893</b>		<b>71.953.945</b>

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# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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### NOTE 24 - COMMITMENTS AND CONTINGENT LIABILITIES

a) Guarantees given at 31 December 2004 and 2003 are as follows:

	<b>2004</b>	<b>2003</b>
Letters of guarantees	25.291.542	9.969.000
Personal guarantees	-	1.407
	<b>25.291.542</b>	<b>9.970.407</b>

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b) Guarantees received as of 31 December 2004 and 2003 is as follows:

	<b>2004</b>	<b>2003</b>
Letters of guarantees	19.460.862	9.819.913
Guarantee notes	439.921	2.221.136
Guarantee cheques	430.000	564.704
Mortgages received	113.000	128.639
	<b>20.443.783</b>	<b>12.734.392</b>

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# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

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### 2.10 FINANCIAL RATIOS

OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.  
STATEMENTS OF FINANCIAL RATIOS FOR THE YEARS  
ENDED 31 DECEMBER 2004 AND 2003

#### FINANCIAL RATIOS ( % )

	2004	2003
<b>Liquidity Ratios</b>		
1- Current Ratio (Circulation Assets / Short Term Liabilities)	1,52	1,21
2- Liquidity Ratios (Circulation Assets - Inventories / Short Term Liabilities)	1,14	0,99
<b>Financial Structure Ratios</b>		
1- Ratio of Total Debts to Assets (Short Term Liabilities + Long Term Liabilities / Total Assets)	0,49	0,54
2- Equity / Total Liabilities (Equity / Short Term Liabilities + Long Term Liabilities)	1,04	0,86
<b>Operational Profitability Ratio</b>		
1- Profitability of Sales (Profit of the Term / Net Sales)	0,10	0,06
2- Profitability of Assets (Profit of the Term / Total Assets)	0,14	0,07
3- Profitability of Equity (Net Profit of the Term / Equity)	0,19	0,10

NOTES TO THE FINANCIAL STATEMENTS  
AT 31 DECEMBER

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### 3 REPORT OF CONFORMITY ON INSTITUTIONAL MANAGEMENT PRINCIPLES

#### 1. CONFORMITY REPORT ON INSTITUTIONAL MANAGEMENT PRINCIPLES

Under the meeting decision of the Capital Market Board dated 10.12.2004 and numbered 48/1588, it has been considered proper for the companies listed in the Istanbul Stock Exchange (ISE) to include their declarations for conformity to the Institutional Management Principles in their activity reports and on their websites (if any) starting with the activity reports related to year 2004. Thus, Otokar Otobüs Karoseri Sanayi A.Ş. has included the following information on conformity in its Activity report for 2004. The REPORT OF CONFORMITY is provided for your information below and it is also accessible via the internet address of our company, ([www.otokar.com.tr](http://www.otokar.com.tr)).

Our company has adapted the principles in question that reveal the quality of institutional management and many of them are still applicable. Our company will also carry out necessary surveys for other principles, which are demanded for application in parallel with these ones, and due actions will be taken according to the responsibility brought about by these arrangements. It is aimed to inform the public, ensure transparency and to take the necessary actions in parallel with the Institutional Management Principles for decisions and transactions involving shareholders and beneficiaries as well as the Board of Directors.

#### PART I - SHAREHOLDERS

##### 2. Department for Relations with Shareholders

**The relations with shareholders are managed by Financial Affairs/Accounting Department in Otokar Otobüs Karoseri Sanayi A.Ş. The main activities carried out by the department include the following:**

- Introducing our company to individual and institutional investors domestically or abroad; informing potential investor as well as shareholders,

**Hüseyin Odabaş, Yasemin Orhon and Esra Şirinel are authorized for this matter and further information may be received by sending an e-mail to**

NOTES TO THE FINANCIAL STATEMENTS  
AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

[arf@otokar.com.tr](mailto:arf@otokar.com.tr) or calling (0264) 229 22 44 (extension no) 411-422.

- Organizing the general assembly of the company, issuing the documentation for use by the shareholders, sending minutes to the persons demanding,
- Informing our shareholders,
- Providing Istanbul Stock Exchange and Capital Market Board with required Explanations on Special Cases with due consideration to the Notification of the Capital Market Board with Serial Seri VIII, No: 39,
- Making the preparations before the General Assembly, issuing the relevant documentation, receiving preliminary permits for amendments to articles of association and submitting the same for the approval of the General Assembly,
- Following changes in the legislation related to the Capital Market Board and providing the same for due consideration of the relevant departments of the company.

**Hüseyin Odabaş and İrfan Özcan are authorized for such issues and further information may be received by sending an e-mail to [arf@otokar.com.tr](mailto:arf@otokar.com.tr) or calling (0264) 229 22 44 (extension no) 410.**

3. Employment of the Right to Information by the Shareholders

**8 shareholders, who attended the last general assembly by having their names registered in the list of attendants, have been informed on financial and administrative issues. With the shareholders, who visited the company to request information and to employ their rights to free shares during the year, the number of transactions became 13. A Meeting for Investors designed for the Analysts of Dealer Organizations was organized during the year with the participation of the General Director and the Senior Management Staff of the Company. Moreover, the Department of Financial Affairs has organized 6 face-to-face meetings with the Analysts of the Dealer Companies.**

**The website of the company includes a "Relations with the Investors" section and related links as well as information enabling access to the Istanbul Stock Exchange data.**

Our articles of association do not provide the request for the appointment of a private auditor as an individual right. Moreover, we have received no such demands from our shareholders as well. Company activities are periodically audited by the Independent External Auditor (PriceWaterhouseCoopers) as determined during the General Assembly and the auditors appointed by the General Assembly.

NOTES TO THE FINANCIAL STATEMENTS  
AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

4. Information on General Assembly

**Only Ordinary General Assembly gathered during 2004. Attendance by the majority was provided for the General Assembly. Moreover, the representations of the visual and published press and the authorized persons from various dealer organizations and establishments intending to attend as observers were also granted this opportunity.**

Call for General Assembly is provided by the Board of Directors according to the relevant provisions of the Turkish Commercial Code, Capital Market Board Code and the articles of association. The public is informed and due explanations are provided to the Istanbul Stock Exchange as soon as the Board of Directors resolves the organization of the General Assembly.

In addition, the location and agenda for the General Assembly, the drafts for amendments to the articles of association and sample for the power of attorney are announced in 2 daily newspapers published in Turkey. Such announcement also states the place where the audited financial statements of the period may be examined.

During our General Assemblies, which are assembled with due supervision by the Governmental Inspector appointed by the Ministry of Industry and Trade, it is the most natural right for our shareholders to ask questions and to express their opinions by taking floor. Thus, the shareholders of the company are ensured by the presidential board to employ their rights to ask questions, to submit proposals relevant to the items of the agenda and to take floor in relation with their proposals according to the applicable procedure.

The minutes of the General Assembly are given in our new website. Moreover, such minutes are accessible for examination by our shareholders and are delivered to the persons requesting so.

**Article 4 titled "Subjects and Objects" of the Articles of Association includes the activities that may be undertaken and the Company may not become involved in every activity as deemed desirable unless a resolution is made to this effect through the amendment of such article by the General Assembly. For matters such as the merger, takeover or split of the company, the issue will be resolved and approved by the General Assembly on the proposal of the Board of Directors. Besides, as duly approved by the**

NOTES TO THE FINANCIAL STATEMENTS  
AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

**General Assembly as an amendment to the Articles of Association, the Company may purchase, sell, have constructed, and lease any real estates, may accept or grant mortgages, may establish in-kind rights on the same. Within this context, the final version of the Articles of Association of the Company, including this articles as well as other articles, is accessible on our website ([www.otokar.com.tr](http://www.otokar.com.tr)).**

**One may access the minutes of the General Assembly and attendance lists classified into years and in our Company Headquarters; also, the minutes of the General Assemblies for the last 3 years are available on our website.**

**5. Voting Rights and Minority Rights**

The articles of association of our company include no privileges for the employment of voting rights.

**The voting rights are employed according to the representation and voting manners in General Assembly (article 18 of the Articles of Association). The regulations of the Capital Market Board for voting via proxy are observed.**

**Our articles of association do not include regulations for the representation of minority shares in management and accumulative voting system.**

**6. Policy and the Time for Distributing Profit**

There are no privileges for participation in company profit and distribution of dividends. Article 24 titled "Distribution of Profit" of Articles of Association is applicable within this context. For distribution of dividends, the regulations of the Capital Market Board are considered as the basis, the approval of the General Assembly is sought and the set out legal time limits are observed. Within the framework of the profit distribution policy, the dividends are distributed among all the shares existing as of the account period equally.

The dividend distributions realized by our company during the recent years are as

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

follows.

YEARS	CAPITAL (NTL)	% DIVIDEND	DIVIDEND DISTRIBUTED (NTL)
FROM PROFIT OF 1998	700.000	50,00%	350.000
FROM PROFIT OF 1999	2.356.600	88,65%	2.089.150
FROM PROFIT OF 2000	4.713.200	100,00%	4.713.200
FROM PROFIT OF 2001	7.069.800	65,00%	4.595.370
FROM PROFIT OF 2002	7.834.774	55,50%	4.348.299
FROM PROFIT OF 2003	24.000.000	No dividend distributed as the profit of the year was deducted from the losses of the previous years under International Financial Reporting Standards.	

### 7. Assignment of Shares

Our articles of association do not include any practices to make it more difficult for our shareholders to assign their shares freely and any provisions limiting assignment of shares.

## PART II – INFORMING THE PUBLIC AND TRANSPARENCY

### 8. Informing Policy of the Company

**Our company aims to provide the relevant persons with correct, complete, comprehensible information promptly in accordance with the principle of informing the public and transparency. Provided that such information is not within the scope of the commercial secrets, it is ensured that any such demands for information will be taken into consideration.**

**However, there are informing actions taken according to the policies of our shareholders in this aspect and strategic policies, on which such information, documentation and record systems are based. In addition, arrangements ranging from relations with media to public meetings are provided.**

**The communication of our company with media is realized by the Institutional Communication Department.**

**NOTES TO THE FINANCIAL STATEMENTS  
AT 31 DECEMBER**

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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The department in charge of informing the public in our company is Financial Affairs/Accounting Department and the information and documentation as considered necessary are announced to the public.

**9. Explanations on Special Cases**

Our company provided explanations on 20 Special Cases in the year 2004. There were no cases for which Capital Market Board and Istanbul Stock Exchange required information. As our company is not quoted in foreign stock exchanges, no Explanations on Special Cases are required other than for Capital Market Board and Istanbul Stock Exchange. As the Explanations on Special Cases were provided within the period as set out by the law, Capital Market Board did not apply any sanctions.

**10. Company Website and Contents**

**Our company has an active and up-to-date website. The website in question contains miscellaneous comprehensive information as may be demanded on our firm. This website, updated according to the developments, also covers a "relations with investors" section, which meets the minimum requirements demanded by Capital Market Board. The activity report of our company may be provided in published form and it is also accessible via website.**

**11. Announcing Real Person Final Dominant Shareholder(s)**

The shareholding structure of our company includes no other known major shareholders holding more than 5% of shares, except Koç Holding A.Ş. and Ünver Holding A.Ş.

The members of the Board of Directors, the senior management staff and shareholders holding directly or indirectly 5% of the capital inform the public about their transactions with capital market tools and shares and any results thereof; there is no special case that may affect the investor.

**NOTES TO THE FINANCIAL STATEMENTS  
AT 31 DECEMBER**

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**12. Informing the Public on People Who Can Access Inside Information**

We can name the people, who can access the information that may have an influence on the value of the capital market tools of the company, as the members of the Board of Directors and the Senior Management Staff of the company. Thus, the list consisting of such persons include Mr. M. Selçuk Gezdur, Mr. Halil İbrahim Ünver, Mr. Alpay Bağrıaçık, Mr. Rüşdü Saraçoğlu, Mr. Ali Tark Uzun, Mr. Kudret Önen and Mr. Taylan Bilgel, who constitute the current board of directors, and Mr. Hüseyin Odabaş, Mr. Erdal Akış, Mr. Serdar Görgüç and Mr. H.Basri Akgül, senior management staff.

In order to ensure the balance between transparency and the protection of the company interests, the rules for the use of inside information by all the employees are taken into consideration with great emphasis.

The information received during employment, that is proprietary information not intended for access by persons other than those who need know and that may be qualified as commercial secrets, is considered as 'Company Information'. All the employees protect company information during their employment at Otokar A.Ş. and afterwards, they do not use such information directly or indirectly and they sign a letter of commitment for this purpose.

**PART III – BENEFICIARIES**

**13. Informing Beneficiaries**

The beneficiaries of the company are informed in matters involving them by invitations to the meetings whenever required or via the use of communication means.

**14. Participation of the Beneficiaries to Management**

**The beneficiaries may participate in the improvement attempts in**

NOTES TO THE FINANCIAL STATEMENTS  
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**administrative issues and may state their opinions actively and provide evaluations in this aspect according to the procedures issued in the organization. We have systematic meetings and training programs ranging from self-evaluation meetings open to all the blue-collar and white-collar employees to open door meetings, which aim to increase efficiency and which are based on total quality philosophy as inspired from EFQM (European Foundation for Quality Management), and both the employees and the suppliers and customers may pronounce their demands during such meetings; we also have surveys such as "questionnaire for evaluating working life", and all of these are realized according to the Human Resources policies. Actions are taken to increase the influence on the society in all levels ranging from the meetings of the vendors organization to the visits made to the shareholders' factories. Moreover, there is a system ensuring that the demands of the customers are followed via the network of sales and vendors and are forwarded to the management and then the relevant arrangements are made and feedback is provided.**

**15. Human Resources Policy**

The criteria for employment and promotion of staff are provided in writing in our company within the scope of the human resources policy. As for the Human Resources process, we aim, by adhering the principles of;

- Right person for the right job
- Equal pay for equal work; differentiation according to the performance
- Recognition and approval according to success
- Equal opportunity for all

to continually develop the qualifications of our labor force and to ensure our permanent superiority in the environment of global competition. The operation of the human resources systems determined for these purposes are defined and announced to all the employees.

**The human resources policy of our company is formed and currently applicable. The matters such as purchase policies, career planning, improvements and training for employees, defined within this context, are subject to the Staff Regulations. Although there are various committees in charge of providing relations with the employees, no representatives have been appointed or elected up to now. The works are carried out in accordance with the Human Resources Policies adapted by the Koç Group**

NOTES TO THE FINANCIAL STATEMENTS  
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**and the rights of both the blue-collar and the white-collar employees are ensured so that they will not be subjected to any discrimination or ill-treatment. No complaints were received during the period related to this matter.**

**16. Information on Relations with Customers and Suppliers**

Customer satisfaction is our priority aim in marketing and selling goods and services. Customer satisfaction is regularly reported and followed.

**All the measures are taken and practices are realized to ensure customer satisfaction during the marketing and sale of the goods and services of our company as well as thereafter. The demands of the customer for the product purchased are immediately met and the customer is informed. Warranties are made for quality standards and for high quality. The principles and policies for suppliers as well as satisfaction criteria for customer-focused goods and services are regularly evaluated and followed by the relevant company departments.**

**17. Social Responsibility**

**Activities are undertaken according to the institutional social responsibility and influence on society criteria within the framework of the social works both locally in the region, where our factory is located, and generally. The Activity Report contains the necessary and detailed information as to the activities undertaken during the period. No claim was made against us for damage to environment throughout the period and we have records relating to our activities, especially the reports on the environmental impact assessment reports.**

**Our company was awarded the following prizes as a result of its activities for protecting the environment;**

**"Sector Environment Prize" awarded by Istanbul Chamber of Industry,  
"Sabahattin Bilgili Environmental Encouragement Reward" awarded by Kocaeli Chamber of Industry,  
"Environment's Friend 98" awarded by the Association for Environmental Technology Practices.**

NOTES TO THE FINANCIAL STATEMENTS  
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PART IV – BOARD OF DIRECTORS

18. Structure and Constitution of the Board of Directors and the Independent Members

**The current Board of Directors of our company consists of;**  
**Mr. M. Selçuk Gezdur-Chairman of the Board of Directors,**  
**Mr. Halil İbrahim Ünver-Assistant to the Chairman of the Board of Directors,**  
**Mr. Alpay Bağrıaçık-Member of the Board of Directors,**  
**Mr. Rüşdü Saraçoğlu-Member of the Supervisory Committee,**  
**Mr. Ali Tarık Uzun- Member of the Supervisory Committee,**  
**Mr. Kudret Önen-Member of the Board of Directors and General Director,**  
**Mr. Taylan Bilgel-Member of the Board of Directors.**

**Mr. Kudret Önen is appointed to the Board of Directors as the executive officer. Following the General Assemblies, in which the members of the Board of Directors are elected, the Chairman and Assistant to the Chairman of the Board of Directors are appointed by due resolution on the distribution of tasks. In case any of the seats in the Board of Directors becomes vacant during the period, provisions of article 315 of the Turkish Commercial Code will be applicable.**

**The approval of General Assembly is sought for permitting the Chairman and the Members of the Board of Directors to carry out works covered by the company subject directly or through third persons or to become a shareholder of other companies involved in similar businesses under articles 334 and 335 of the Turkish Commercial Code.**

19. Qualifications of the Board of Directors

**The Chairman and the Members of the Board of Directors are appointed to provide maximum effect and efficiency. By taking the matters included in the Institutional Management Principles, a Board of Directors consisting of the persons, who fulfill such qualifications and who are efficient and qualified in management, was constituted. As for the qualifications sought in the persons to be appointed to the Board of Directors, due consideration is given to the fact that the managers, who have such qualifications, should also be knowledgeable as required.**

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

**Vision:**

Otokar develops its own technology and preserves the domestic and national identity in its products; aims to provide the permanence for the satisfaction of its customers, employees and shareholders with overall perfection.

**Mission:**

Main task of Otokar is to design, manufacture and market commercial vehicles as well as various defense industry products in parallel with customer expectations as products with competitive power throughout the world.

**Strategic Targets:**

- Growing by 14% during some specific periods by ensuring minimum 12% profitability for our equities and increasing the values of our shares
- Focusing on the manufacture of products, for which we are assertive and we have international competitive power.
- Investing in technology so that we can rank as the leader or just after the leader for the sectors in which we are involved.
- Enhancing our trademark strength in the sectors in which we are involved and becoming dominant in terms of the technology.
- Enhancing our exports and activities abroad and increasing the share of foreign sales in our revenue.

Strategic targets, which are determined in parallel with the vision and mission of our company, are evaluated by the Board of Directors. The values for our mission and vision, determined by the Senior Management of the Company and approved by our Board of Directors, are included in our Activity report; and the actions by the relevant departments for the creation and due application of the strategic targets are submitted to the Board of Directors and monitored by the Senior Management. The Board of Directors evaluates the performance of the previous year when reviewing the annual activities and compares the new year targets of the Senior Management and makes the necessary resolutions.

**21. Risk Management and Internal Control Mechanism**

**A risk management and internal control organization was provided in**

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**relation with the financial and administrative activities of the company, and the operation and efficiency of such organization is monitored by the Financial Affairs/Accounting Department under the relevant capital market legislation and regulations.**

**The financial statements of our company are supervised by the Supervisory Committee constituted by the Members of the Board of Directors. Moreover, the auditors appointed by the General Assembly under the Turkish Commercial Code also fulfill supervisory functions.**

**Our company maintains its activities as subject to the supervision by the Directorate of Supervisory Group, which fulfills its functions under the Board of Directors of the dominant shareholder, Koç Holding A.Ş., including all the financial audits and risks analyses.**

**22. Powers and Responsibilities of the Members of the Board of Directors**

**The responsibilities and powers of the members of the Board of Directors are expressly given in the articles of association. The powers are clearly defined in the signature circular of the company.**

**23. Principles for the Activities of the Board of Directors**

**The titles or agendas related to the Resolutions by the Board of Directors are issued periodically or according to the necessities to occur from time to time. The number of the meetings of the Board of Directors may change according to the needs to arise. 10 Resolutions were resolved during the Board of Director meetings in 2002, while such number became 12 in 2003 and 8 in 2004. The attendance to and call for the meetings are subject to the company transactions as a principle and the Board of Directors meets as such. Although a specific secretariat has not been provided in order to ensure liaison, the Accounting Department prepares the agendas for the Resolutions by the Board of Directors, writes down and monitors the resolutions. If there is a disagreeing vote cast during the voting of the meeting resolutions, such disagreeing vote is recorded as an annotation. The questions asked and explanations (if any) taking place during resolving are included.**

# OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in New Turkish Lira (YTL) in terms of the purchasing power of the Turkish Lira at 31 December 2004 unless otherwise indicated)

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The agendas for the meetings of the Board of Directors are determined by means of Senior Management of Company informing the members of the Board of Directors on the issues that are expressly stated in the articles of association as being resolved by the Board of Directors. In addition to this, any of the members of the Board of Directors may notify the Senior Management of the company for resolution of a specific matter and the agenda of the meeting may be determined as such.

The matters brought about for negotiation by the Board of Directors of the Company are forwarded to the Financial Affairs Department and the agenda is formed by consolidating such matters.

Director of Financial Affairs of Otokar A.Ş. has been appointed the tasks of setting the agendas for the meetings of the Board of Directors, preparing the Resolutions of the Board of Directors resolved under the provision of Turkish Commercial Code 330/II and informing the Members of the Board of Directors and ensuring liaison.

The diverse opinions and grounds for counter-votes are recorded on minutes for the resolutions. However, no explanations have been made to public as no such oppositions or diverse opinions have taken place recently.

### 24. Ban on Involvement into Transactions with Company and on Competition

**The members of the Board of Directors of the company are prohibited from being involved in transactions with the company and from competing with the company and the necessary measures are taken for such cases, which may lead to conflict of interests, under the applicable legislations.**

### 25. Ethical Rules

**The company takes the actions necessary for observing and practicing the ethical rules in a general sense. The ethical rules, which are generally recognized within the integrity of the legislation, regulations and practices, are observed.**

**Any new regulations to arise will be announced publicly within the framework of policy for informing company employees and beneficiaries.**

NOTES TO THE FINANCIAL STATEMENTS  
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**26. Number, structures and independence of the committees constituted under the Board of Directors**

There is a committee responsible for supervision, which was constituted in order to ensure that the Board of Directors duly fulfills its tasks and liabilities.

**This committee, which was formed in order to monitor the financial matters, to examine the periodical financial statements and footnotes thereto and to submit the Independent External Audit Report to the Board of Directors for approval, consists of Mr. Rüşdü Saraçoğlu and Mr. Ali Tarık Uzun.**

An Institutional Management Committee has not been constituted yet within the scope of the Institutional Management Principles of the company. Due actions will be taken in this aspect under the relevant legislation and the regulations to be published by the Capital Market Board.

**27. Remunerations for the Board of Directors**

The rights granted to Members of the Board of Directors are resolved by the General Assembly. During the General Assembly that took place on 15.04.2004, it was found appropriate to make monthly payments to the members of the Board of Directors.

**The Chairman and the Members of the Board of Directors are not provided with any interests other than the payments determined by the General Assembly. There are no practices based on the performance or rewards for the Board of Directors.**

Moreover, no debts were provided or no loans were made available to any Member of the Board of Directors and Senior Manager of the Company, no interests have been provided in the form of loan through a third party and they have not been granted guarantees such as sureties to their favor.