

**FORD OTOMOTİV SANAYİ A.Ş.**

**CONVENIENCE TRANSLATION INTO ENGLISH OF  
FINANCIAL STATEMENTS AT 31 DECEMBER 2007  
TOGETHER WITH AUDITOR'S REPORT  
(ORIGINALLY ISSUED IN TURKISH)**

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

**AUDITOR'S REPORT**

1. We have audited the accompanying financial statements of Ford Otomotiv Sanayi A.Ş. which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

4. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Ford Otomotiv Sanayi A.Ş. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards issued by the Capital Markets Board (See Note 2).

5. Additional paragraph for convenience translation into English:

The effects of differences between financial reporting standards issued by the Capital Markets Board, the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with accounting principles generally accepted in such countries and IFRS.

6. Without qualifying our opinion, we also draw your attention to the following matter:

As explained in Note 3 to the financial statements, Euro amounts shown in the accompanying financial statements have been included solely for the convenience of the reader of the financial statements and are translated from New Turkish lira, as a matter of arithmetic computation only, at the official Euro bid rates announced by the Central Bank of Turkey at 31 December 2007. Euro amounts do not form a part of the financial statements prepared in accordance with the financial reporting standards issued by the Capital Markets Board and such translations should not be construed as a representation that the New Turkish lira amounts have been or could be converted into Euro at this or any other rate.

Başaran Nas Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
a member of  
PricewaterhouseCoopers

Mert Tüten, SMMM  
Partner

Istanbul, 10 March 2008

# FORD OTOMOTİV SANAYİ A.Ş.

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**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH**

**FORD OTOMOTİV SANAYİ A.Ş.**

**BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006**

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

	Notes	2007 EURO*	31 December 2007	31 December 2006
<b>ASSETS</b>				
<b>Current assets</b>		<b>955,078,083</b>	<b>1,633,374,539</b>	<b>1,303,797,646</b>
Cash and cash equivalents	4	210,572,884	360,121,747	211,706,027
Marketable securities (net)	5	-	-	-
Trade receivables (net)	7	238,891,740	408,552,654	272,571,587
Leasing receivables (net)	8	-	-	-
Due from related parties (net)	9	237,950,927	406,943,675	353,329,775
Other receivables (net)	10	979,154	1,674,550	1,708,258
Biological assets (net)	11	-	-	-
Inventories (net)	12	218,350,105	373,422,349	373,040,738
Construction contract receivables (net)	13	-	-	-
Deferred tax assets	14	-	-	-
Other current assets	15	48,333,273	82,659,564	91,441,261
<b>Non-current assets</b>		<b>821,250,258</b>	<b>1,404,502,192</b>	<b>1,520,499,654</b>
Trade receivables (net)	7	23,795	40,694	11,791
Leasing receivables (net)	8	-	-	-
Due from related parties (net)	9	-	-	88,807,786
Other receivables (net)	10	-	-	-
Financial assets (net)	16	1,652,463	2,826,043	16,535,832
Goodwill/negative goodwill (net)	17	-	-	-
Investment properties (net)	18	-	-	-
Property, plant and equipment (net)	19	764,678,591	1,307,753,327	1,293,639,349
Intangible assets (net)	20	54,895,409	93,882,128	108,620,248
Deferred tax assets	14	-	-	12,884,648
Other non-current assets	15	-	-	-
<b>Total assets</b>		<b>1,776,328,341</b>	<b>3,037,876,731</b>	<b>2,824,297,300</b>

\* Euro amounts presented above are translated from New Turkish lira for convenience purposes only, at the official New Turkish lira ("YTL") exchange rate announced by the Central Bank of Turkey at 31 December 2007 and therefore do not form a part of these financial statements prepared in accordance with the financial reporting standards issued by the Capital Markets Board ("CMB").

The financial statements were approved for issue by the Board of Directors on 10 March 2008 and signed on behalf of the Board by Oğuz Toprakoğlu, Assistant General Manager – Financial Affairs (CFO) and Tuncay Selçuk Assistant General Manager – Finance.

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

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH**

**FORD OTOMOTİV SANAYİ A.Ş.**

**BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006**

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

	Notes	2007 EURO*	31 December 2007	31 December 2006
<b>LIABILITIES</b>				
<b>Current liabilities</b>		<b>560,525,116</b>	<b>958,610,052</b>	<b>1,083,577,065</b>
Short-term borrowings (net)	6	-	-	133,954,960
Current portion of long-term borrowings (net)	6	68,193,713	116,624,888	232,117,255
Leasing payables (net)	8	-	-	-
Other financial liabilities (net)	10	-	-	-
Trade payables (net)	7	269,869,804	461,531,338	403,107,240
Due to related parties (net)	9	52,907,040	90,481,619	85,410,373
Advances received	21	5,174,875	8,850,071	248,255
Construction progress billings (net)	13	-	-	-
Provisions	23	69,875,364	119,500,848	100,661,663
Deferred tax liabilities	14	-	-	-
Other liabilities (net)	10	94,504,320	161,621,288	128,077,319
<b>Non-current liabilities</b>		<b>212,518,461</b>	<b>363,449,075</b>	<b>109,307,379</b>
Long-term borrowings (net)	6	175,059,714	299,387,123	85,522,935
Leasing payables (net)	8	-	-	-
Other financial liabilities (net)	10	-	-	-
Trade payables (net)	7	-	-	-
Due to related parties (net)	9	-	-	-
Advances received	21	-	-	-
Provisions	23	13,915,249	23,797,859	23,784,444
Deferred tax liabilities	14	23,543,500	40,264,093	-
Other liabilities (net)	10	-	-	-
<b>Minority interest</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Shareholders' equity</b>		<b>1,003,284,765</b>	<b>1,715,817,604</b>	<b>1,631,412,856</b>
<b>Share capital</b>	25	<b>205,186,528</b>	<b>350,910,000</b>	<b>350,910,000</b>
<b>Treasury shares</b>	25	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital reserves</b>	26	<b>267,778,429</b>	<b>457,954,669</b>	<b>465,630,714</b>
Share premium		4,825	8,252	8,252
Share cancellation gains		-	-	-
Revaluation fund		-	-	-
Financial assets fair value reserve		1,008,590	1,724,890	9,400,935
Inflation adjustment to shareholders' equity		266,765,014	456,221,527	456,221,527
<b>Profit reserves</b>	27	<b>147,831,687</b>	<b>252,821,751</b>	<b>144,132,729</b>
Legal reserves		118,051,930	201,892,410	153,763,349
Statutory reserves		-	-	-
Extraordinary reserves		29,779,756	50,929,339	-
Special reserves		1	2	2
Investment and property sales income to be added to the capital		-	-	-
Cash flow hedge reserve		-	-	(9,630,622)
Translation reserve		-	-	-
<b>Net income for the period</b>		<b>283,149,410</b>	<b>484,242,121</b>	<b>500,850,350</b>
<b>Retained earnings</b>	28	<b>99,338,711</b>	<b>169,889,063</b>	<b>169,889,063</b>
<b>Total shareholders' equity and liabilities</b>		<b>1,776,328,341</b>	<b>3,037,876,731</b>	<b>2,824,297,300</b>

\* Euro amounts presented above are translated from New Turkish lira for convenience purposes only, at the official New Turkish lira exchange rate announced by the Central Bank of Turkey at 31 December 2007 and therefore do not form a part of these financial statements prepared in accordance with the financial reporting standards issued by the CMB.

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

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH**

**FORD OTOMOTİV SANAYİ A.Ş.**

**STATEMENTS OF INCOME  
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006**

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

	Notes	2007 EURO*	31 December 2007	31 December 2006
<b>Operating revenue</b>				
Sales (net)	36	4,227,944,152	7,230,630,088	6,521,299,345
Cost of sales		(3,622,877,220)	(6,195,844,622)	(5,622,549,491)
Service income (net)	36	-	-	-
Other operating income (net)	36	-	-	-
<b>Gross operating profit</b>		<b>605,066,932</b>	<b>1,034,785,466</b>	<b>898,749,854</b>
Operating expenses	37	(226,237,200)	(386,910,859)	(329,532,399)
<b>Net operating profit</b>		<b>378,829,732</b>	<b>647,874,607</b>	<b>569,217,455</b>
Other income and gains	38	26,322,818	45,017,284	90,953,498
Other expenses and losses	38	(1,661,614)	(2,841,692)	(2,549,068)
Financial expenses (net)	39	(19,388,662)	(33,158,489)	(36,415,086)
<b>Operating profit</b>		<b>384,102,274</b>	<b>656,891,710</b>	<b>621,206,799</b>
Monetary gain	40	-	-	-
<b>Minority interests</b>	24	-	-	-
<b>Income before tax</b>		<b>384,102,274</b>	<b>656,891,710</b>	<b>621,206,799</b>
Taxes on income	41	(100,952,864)	(172,649,589)	(120,356,449)
<b>Net income for the period</b>		<b>283,149,410</b>	<b>484,242,121</b>	<b>500,850,350</b>
<b>Earnings per share with a nominal value of YKr 1</b>	42		<b>1.38</b>	<b>1.43</b>

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

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH**

**FORD OTOMOTİV SANAYİ A.Ş.**

**STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006**

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

	Share capital	Share premium	Inflation adjustment to shareholders' equity	Financial assets fair value reserve	Cash flow hedge reserve	Legal and special reserves	Extraordinary reserves	Retained earnings	Current year profit	Total shareholders' equity
<b>Balance at 1 January 2006</b>	<b>350,910,000</b>	<b>8,252</b>	<b>456,221,527</b>	<b>56,372,747</b>	<b>(33,559,662)</b>	<b>87,699,569</b>	<b>118,556,085</b>	<b>169,889,063</b>	<b>398,410,813</b>	<b>1,604,508,394</b>
Transfers	-	-	-	-	-	66,063,782	191,983,031	140,364,000	(398,410,813)	-
Dividend paid	-	-	-	-	-	-	(310,539,116)	(140,364,000)	-	(450,903,116)
Disposals and fair value increase / (decrease) of financial assets	-	-	-	(46,971,812)	-	-	-	-	-	(46,971,812)
Net income for the period	-	-	-	-	-	-	-	-	500,850,350	500,850,350
Cash flow hedge reserve	-	-	-	-	23,929,040	-	-	-	-	23,929,040
Addition to reserve	-	-	-	-	(1,383,196)	-	-	-	-	(1,383,196)
Charged to income statement	-	-	-	-	25,312,236	-	-	-	-	25,312,236
<b>Balance at 31 December 2006</b>	<b>350,910,000</b>	<b>8,252</b>	<b>456,221,527</b>	<b>9,400,935</b>	<b>(9,630,622)</b>	<b>153,763,351</b>	<b>-</b>	<b>169,889,063</b>	<b>500,850,350</b>	<b>1,631,412,856</b>
<b>Balance at 1 January 2007</b>	<b>350,910,000</b>	<b>8,252</b>	<b>456,221,527</b>	<b>9,400,935</b>	<b>(9,630,622)</b>	<b>153,763,351</b>	<b>-</b>	<b>169,889,063</b>	<b>500,850,350</b>	<b>1,631,412,856</b>
Transfers	-	-	-	-	-	48,129,061	259,720,789	193,000,500	(500,850,350)	-
Dividend paid	-	-	-	-	-	-	(208,791,450)	(193,000,500)	-	(401,791,950)
Disposals and fair value increase / (decrease) of financial assets	-	-	-	(7,676,045)	-	-	-	-	-	(7,676,045)
Net income for the period	-	-	-	-	-	-	-	-	484,242,121	484,242,121
Cash flow hedge reserve	-	-	-	-	9,630,622	-	-	-	-	9,630,622
Addition to reserve	-	-	-	-	20,761	-	-	-	-	20,761
Charged to income statement	-	-	-	-	9,609,861	-	-	-	-	9,609,861
<b>Balance at 31 December 2007</b>	<b>350,910,000</b>	<b>8,252</b>	<b>456,221,527</b>	<b>1,724,890</b>	<b>-</b>	<b>201,892,412</b>	<b>50,929,339</b>	<b>169,889,063</b>	<b>484,242,121</b>	<b>1,715,817,604</b>

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



**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH**

**FORD OTOMOTİV SANAYİ A.Ş.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006**

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

	Notes	2007 EURO*	31 December 2007	31 December 2006
<b>Cash flows from operating activities:</b>				
<b>Net income</b>		<b>283,149,410</b>	<b>484,242,121</b>	<b>500,850,350</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>				
Depreciation	19	71,187,727	121,745,251	114,018,833
Amortisation	20	21,062,350	36,020,831	67,668,286
Provision for employment termination benefits	23	2,752,713	4,707,690	7,819,512
Taxation	41	100,952,865	172,649,589	120,356,449
Interest income	39	(4,252,928)	(7,273,358)	(10,079,046)
Interest expense	39	12,056,867	20,619,654	17,928,006
Foreign exchange (gain)/loss		(22,665,930)	(38,763,273)	55,116,026
Disposals from cash flow hedge reserve	39	5,631,284	9,630,622	23,929,040
Provision expenses/(Reversal of provisions)		2,847,181	4,869,249	(1,561,810)
Gain/(loss) on sale of property, plant and equipment-net	38	72,024	123,176	(1,365,151)
Dividend income	38	(102,765)	(175,749)	(56,240)
Net gain on sale of financial assets	38	(4,891,230)	(8,364,981)	(47,971,875)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>467,799,568</b>	<b>800,030,822</b>	<b>846,652,380</b>
Net change in assets and liabilities	43	13,324,942	22,788,315	(143,502,845)
Income tax paid	41	(58,859,585)	(100,661,663)	(100,003,229)
Employment termination benefits paid	23	(2,744,869)	(4,694,275)	(3,264,204)
<b>Net cash generated from operating activities</b>		<b>419,520,056</b>	<b>717,463,199</b>	<b>599,882,102</b>
<b>Cash flows used in investing activities:</b>				
Purchase of property, plant and equipment	19	(81,357,545)	(139,137,673)	(200,175,525)
Purchase of intangible assets	20	(12,444,574)	(21,282,711)	(31,039,099)
Proceeds from sale of property, plant and equipment		1,844,970	3,155,268	3,412,004
Interest received		4,129,881	7,062,923	10,379,074
Dividends received		102,765	175,749	56,240
<b>Net cash used in investing activities</b>		<b>(87,724,503)</b>	<b>(150,026,444)</b>	<b>(217,367,306)</b>
<b>Cash flows from financing activities:</b>				
Interest paid		(10,581,055)	(18,095,721)	(17,928,006)
Dividends paid		(234,938,574)	(401,791,950)	(450,903,116)
Proceeds from borrowings		205,530,347	351,498,000	260,848,000
Repayments of borrowings		(205,146,648)	(350,841,798)	(185,464,721)
Proceeds from the disposal of financial assets		-	-	(116,879)
<b>Net cash used in financing activities</b>		<b>(245,135,930)</b>	<b>(419,231,469)</b>	<b>(393,564,722)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>86,659,623</b>	<b>148,205,286</b>	<b>(11,049,926)</b>
<b>Cash and cash equivalents at beginning of the period</b>	4	<b>123,661,681</b>	<b>211,486,208</b>	<b>222,536,134</b>
<b>Cash and cash equivalents at end of the period</b>	4	<b>210,321,304</b>	<b>359,691,494</b>	<b>211,486,208</b>

\* Euro amounts presented above are translated from New Turkish lira for convenience purposes only, at the official New Turkish lira exchange rate announced by the Central Bank of Turkey at 31 December 2007 and therefore do not form a part of these financial statements prepared in accordance with financial reporting standards issued by CMB.

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

## **CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

### **FORD OTOMOTİV SANAYİ A.Ş.**

#### **NOTES TO FINANCIAL STATEMENTS**

##### **AT 31 DECEMBER 2007 AND 2006**

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

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#### **NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS**

Ford Otomotiv Sanayi A.Ş. (the "Company") is incorporated and domiciled in Turkey and manufactures and sells motor vehicles and parts, primarily commercial vehicles, and imports passenger cars. The Company was established in 1959 and presently operates as a joint venture between Ford Motor Company and the Koç Group of Companies. The Company is listed on the Istanbul Stock Exchange, where 17.92% of its shares are currently quoted.

The Company presently has two plants located in Kocaeli and Eskişehir and has a spare part distribution warehouse in Kartal, Istanbul. The light commercial vehicle, Transit Connect, and new generation Transit vehicles (minibuses, pick-ups and vans) are manufactured at the plant opened in 2001 in Kocaeli. Ford Cargo trucks and their engines are manufactured in Eskişehir.

On April 2007, the Company opened a branch in TUBITAK Marmara Research Center, located in Gebze Technological Free Zone for the purpose of conducting research and development and engineering operations.

As of 31 December 2007, the Company has 8,865 employees on average (31 December 2006: 7,949 employees).

The registered office address of the Company is as follows: Fatih Mah. Hasan Basri Cad. Köymenkent 34885 Samandıra Kartal Istanbul.

#### **NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

##### **2.1 Accounting standards**

The financial statements of the Company have been prepared in accordance with the accounting and reporting principles published by the Capital Markets Board ("CMB"), namely "CMB Accounting Standards". The CMB published a comprehensive set of accounting principles in Communiqué No: XI-25 "The Accounting Standards in the Capital Markets". In the aforementioned communiqué, it has been stated that applying the International Financial Reporting Standards "IFRS" issued by the International Accounting Standards Board ("IASB") is accepted as an alternative to conform to the CMB Accounting Standards.

With the decision taken on 17 March 2005, the CMB has announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with CMB Accounting Standards. Accordingly, the Company did not apply IAS 29 "Financial Reporting in Hyperinflationary Economies" issued by the IASB in its financial statements for the accounting periods starting 1 January 2005. These financial statements and the related notes have been presented in accordance with the formats required by the CMB.

The financial statements are prepared in New Turkish Lira ("YTL") based on the historical cost conversion except for the financial assets and liabilities which are expressed with their fair values.

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**NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)**

**2.2 Financial reporting in hyperinflationary periods**

As explained under "Section 2.1 Accounting Standard"; the CMB has announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. The restatement of the comparative amounts was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Indices and conversion factors used to restate the comparative amounts until 31 December 2004 are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>	<u>Cumulative 3-year inflation rates %</u>
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	1.297	227.3

**2.3 Comparatives and restatement of prior periods' financial statements**

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The balance sheet of the Company at 31 December 2007 includes the comparative financial information of 31 December 2006 and the statement of income, the statement of changes in shareholders' equity and the statement of cash flows for the year ended 31 December 2007, includes the comparative financial information of the year ended 31 December 2006. Comparative figures that are material have been reclassified to conform to the changes in presentation in the current period.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

**3.1 Cash and cash equivalents**

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

**3.2 Marketable securities**

Marketable securities are stated at fair value in the periods after initial recognition. The changes in the fair value of marketable securities are accounted in the financial income and expense accounts of the profit and loss statements. Marketable securities are accounted on the basis of the delivery date (Note 5).

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.3 Trade receivables and valuation allowance**

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 the original invoice amount unless the effect of imputing interest is significant.

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

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income (Note 7) in the current period.

Since 2006, the Company collected most of the receivables from domestic vehicles sales through the "Direct Debit System" (DDS). Receivables from sales are organised under collection warranties, using certain limits, in agreements made between contracted banks and dealers; the system named the Direct Collection System. Receivables from sales are transferred by the contracted banks to the Company's bank accounts inline with the due dates.

**3.4 Credit finance income/charges**

Credit finance income/charges represent imputed finance income/charges on credit sales and purchases. Such income/charges are recognised as financial income or expenses over the period of credit sales and purchases, and included under financial income and expenses.

**3.5 Inventories**

Inventories are valued at the lower of cost or net realisable value. The cost of inventories is determined on the moving monthly average basis. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads and exclude the cost of borrowing. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 12).

**3.6 Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using effective interest method.

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.7 Property, plant and equipment**

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

The depreciation periods for property and equipment, which approximate the economic useful lives of assets concerned, are as follows:

Land improvements	30 years
Buildings	30 years
Machinery and equipment	5-25 years
Moulds and models	project life
Furniture and fixtures	10-12.5 years
Motor vehicles	9 years

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

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's net selling price or value in use.

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

Repair and maintenance expenditures are charged to the income statement as they are incurred. Repair and maintenance expenditures are capitalised if they result in an enlargement or substantial improvement of the respective asset (Note 19).

**3.8 Intangible assets**

Intangible assets comprise computer software programmes, leasehold improvements and development costs.

Intangible assets are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over a period not exceeding five years. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount. The recoverable amount is considered to be the higher of asset's net selling price or value in use. Development costs, comprising of engineering design incurred for the production of new commercial vehicles, are capitalised as discussed in Note 3.23 (Note 20).

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.9 Impairment of long-lived assets**

All assets are reviewed for impairment losses including property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. Impairment losses are recognised in the statement of income.

Impairment losses on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

**3.10 Loans**

Loans originated by the Company by providing money directly to a borrower, other than those that are originated with the intent to be sold immediately or in the short-term, are classified as loans originated by the Company. All loans are recognised when cash is advanced to the borrower and measured at amortised cost.

When the loan is originated by the Company by providing money directly to a bank, the loan is secured with marketable securities, Turkish government bonds and treasury bills, acquired under reverse repurchase agreements with banks with a predetermined sale price at fixed future dates and is stated at amortised cost. The accrued interest represents the apportionment to the current period of the difference between future sale prices and the amount provided by the Company. Such originated loans where original maturity at the time the money is directly transferred to the bank is less than three months, are considered and classified as cash equivalents for the purposes of cash flow statements.

Loans originated by the Company that have a fixed maturity are measured at amortised cost using the effective interest rate method.

A provision for loan impairment 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 loan at inception

**3.11 Available-for-sale investments**

Investments intended to be held for an indefinite period of time, and which may be sold in response to a need 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 investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management makes the proper classification of such financial instruments at the date they are purchased and monitors this classification regularly.

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

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.12 Embedded derivatives**

Derivative instruments embedded in purchase or sales contracts that require payments denominated in (i) a currency other than the currency of the primary economic environment in which any substantial party to that contract operates or (ii) the currency other than the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in international commerce, are treated as embedded foreign currency forward contracts. Material gains and losses from embedded derivatives in the contracts, which will be realised in future periods, are recognised in the statement of income.

**3.13 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. Dividends payable are recognised as an appropriation of profit in the period in which they are declared (Notes 26, 27, 28 and 42).

**3.14 Taxes on income**

Taxes include current period income taxes and deferred taxes. Current year tax liability consists of tax liability on period income calculated according to currently enacted tax rates and tax legislation in force as of balance sheet date and includes adjustments related to previous years' tax liabilities.

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax bases of assets and liabilities comprise of the amounts that will affect the future period tax charges based on the tax legislation. Currently enacted tax rates, which are expected to be effective during the periods when the deferred tax assets will be utilised or deferred tax liabilities will be settled, are used to determine deferred income tax.

Deferred tax liabilities are recognised for all taxable temporary differences, where 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. Carrying values of deferred tax assets are decreased to the extent necessary, if future taxable profits are not expected to be available to utilise deferred tax assets partially or fully.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (Note 14).

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.15 Revenue recognition**

Revenue comprises the invoiced value for the sale of goods and services. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. For export sales significant risk and rewards are transferred to the buyer on FAS, "Final Assignment to Ship" terms. For domestic sales, significant risk and rewards are transferred to the buyer when goods are delivered and received by the buyer or when the legal title is passed to the buyer. Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company. Net sales represent the invoiced value of goods shipped less sales returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised as interest income on accrual basis (Note 36).

**3.16 Foreign currency transactions and balances**

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 into YTL at the exchange rates prevailing at the balance sheet dates. Foreign currency exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the income statement (Notes 29 and 39).

**3.17 Financial instruments**

***Credit risk***

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. All trade receivables are due mainly from dealers and related parties. The Company has established effective control procedures over its dealers and the credit risk arising from transactions with such dealers is regularly monitored by management and the aggregate risk to any individual counterparty is limited. The Company covered its credit risk from domestic vehicle sales to dealers by setting credit limits for dealers through arranged banks and collects its trade receivables from banks at the due date through the use of Direct Debit System("DDS"). The use of DDS for receivables from dealers is an efficient way to decrease the credit risk. Collaterals obtained from dealers for the receivables regarding domestic spare part sales is another method in management of the credit risk (Note 7).

***Price risk***

The Company is exposed to equity securities price risk because of investments classified on the balance sheet as available-for-sale. The Company limits the available-for sale-financial assets in order to manage the price risk arising from investments in equity securities. The Company is not exposed to commodity price risk.



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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Liquidity risk***

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The risk of funding current and future debt necessity is managed by having an adequate number of quality loan providers constantly available. The Company management keeps cash, credit commitment and factoring capacity to maintain three weeks cash outflows to manage the liquidity risk. The Company maintains a credit commitment amounting to Euro70 million and factoring agreement amounting to YTL140 million in case a requirement for use arises.

***Interest rate risk***

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. The Company makes limited use of derivatives, such as interest rate swaps and collars, to hedge its floating rate borrowings.

At 31 December 2007, if the interest rates at repricing dates on US Dollars and Euro denominated borrowings with floating interest rate had been 100 basis points higher/lower with all other variables kept constant, net income for the year would have been YTL1,103,378 (31 December 2006: YTL677,088) lower/higher due to higher/lower interest expense of floating interest rate borrowings.

***Funding risk***

The ability to fund the existing and prospective debt requirements is managed as necessary by obtaining adequate committed funding lines from high quality lenders.

***Foreign exchange risk***

The Company is exposed to foreign exchange risk through the impact of rate changes on the translation of foreign currency assets and liabilities into local currency. This risk is monitored regularly by management through Audit Committee and Board meetings. Idle cash is invested mainly in hard currency to balance the net foreign currency assets and liabilities and in order to minimise the balance sheet foreign exchange exposure.

The assets and liabilities of the Company are exposed to foreign exchange risk due to the export sales. The policy of the Company is to minimize the foreign exchange risk by balancing the foreign currency position. The Company manages the foreign currency risk incurred from foreign currency denominated borrowings and trade payables through foreign currency denominated assets (Note 29).

The Company is exposed to foreign currency risk from changes in foreign currency rates used in the YTL translation of the foreign currency denominated borrowings.

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Capital risk management***

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the debt to total capital ratio. This ratio is calculated as total debt divided by total capital. Debt is calculated as total short and long term borrowings, whereas total capital is calculated as equity, as shown in the balance sheet.

	<b>31 December 2007</b>	<b>31 December 2006</b>
Total debt	416,012,011	451,595,150
Total capital	1,715,817,604	1,631,412,856
<b>Debt/total capital ratio</b>	<b>0.24</b>	<b>0.28</b>

The Company's strategy is to maintain the debt/total capital ratio generally between 0.25 and 0.45.

**3.18 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, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practical to estimate fair value:

***Monetary assets***

The fair values of balances denominated in foreign currencies, which are translated using year-end exchange rates, are considered to approximate their carrying value.

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

The carrying values of trade receivables along with the related allowances for impairment are estimated to be their fair values due to their short-term nature.

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Monetary liabilities***

The fair values of monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. Long-term borrowings, which are mainly denominated in foreign currencies, are translated at year-end exchange rates and their fair values approximate their carrying values.

**3.19 Accounting for derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are re-measured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Company designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge) or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated as being and qualify as cash flow hedges and that are highly effective, are recognised in equity as cash flow hedge reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts booked under equity are transferred to the statement of income and classified as revenue or expense in the period in which the hedged firm commitment or forecasted transaction affects the statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under "Financial Instruments" ("IAS 39"), any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the statement of income. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

Management believes that there is an effective cash flow hedge between the foreign currency denominated payables (a non-derivative hedging instrument) with regard to engineering expenses and anticipated future sales (hedged item) of the light commercial vehicle ("V227 or Transit Connect"). The hedge relationship has been considered effective since its inception, when the business principles for V227 between the Company and Ford Motor Company were formally discussed and agreed. As at 31 December 2007, there is no unrealised foreign exchange losses on foreign currency denominated engineering payables and the YTL9,630,622 (31 December 2006: YTL25,312,236) cash flow hedge reserve booked under shareholders' equity is stated under financial expense in the profit and loss statement due to relation with the sales to Ford in 2007.

**3.20 Borrowings and borrowing costs**

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

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.21 Provision for employment termination benefits**

Provision for employment termination benefits represent the present value of the estimated total reserve of the future probable obligation of the Company arising from the retirement of the employees, completion of one year of service of the employees, employees' being calling up for military service or the death of employees calculated in accordance with the Turkish Labour Law (Note 23).

**3.22 Provisions**

Provisions are recognised when the Company has a present legal or 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. If the provision amount decreases, in the case of an event occurring after the provision is accounted for, the related amount is stated as other income in the current period.

**3.23 Research and development expenses**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over five years.

**3.24 Variable marketing provision**

Variable marketing expenses for dealer stocks are accrued for based on the last approved variable marketing programme (Note 10).

**3.25 Warranty expenses**

Warranty expenses are recognised on an accrual basis for amounts estimated based on prior periods' realisation (Note 10).

**3.26 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 (Note 9).

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.27 Earnings per share**

Earnings per share disclosed in the statement of income are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related 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 the revaluation surplus. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year (Note 42).

**3.28 Investment incentives relating to the purchase of property, plant and equipment**

Investment incentives, relating to the purchase of property, plant and equipment with regard to the new investments in 2005 and before, are treated as deductible temporary differences if the utilisation of the estimated amount is virtually certain in 2008 (Note 14).

**3.29 Comparatives**

Comparative figures that are material have been reclassified to conform to the changes in presentation in the current period.

**3.30 Reporting of cash flows**

In the statement of cash flows, cash flows during the period are classified under either operating, investing or financing activities.

The cash flows raised from operating activities indicate cash flows due to the Group's operations.

The cash flows due to investing activities indicate the Group cash flows that are used for and obtained from investments (investments in property, plant and equipment and financial investments).

The cash flows due to financing activities indicate the cash obtained from financial arrangements and used in their repayment.

Cash and cash equivalents include cash and bank deposits and the investments that are readily convertible into cash and highly liquid with less than three months to maturity (Note 4).

**3.31 Share premium**

Share premium represents differences resulting from the sale of the Company's Subsidiaries and Associates' shares at a price exceeding the face values of those shares or differences between the face values and the fair value of shares issued for acquired companies.

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.32 Offsetting**

Financial assets and liabilities are offset and the net amount 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.

**3.33 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 not included in financial tables and treated as contingent assets or liabilities (Note 31).

**3.34 Significant accounting estimates and decisions**

Preparation of financial statements requires the use of estimates and assumptions that may affect the amount of assets and liabilities recognised as of the balance sheet date, contingent assets and liabilities disclosed and the amount of revenue and expenses reported. Although, these estimates and assumptions rely on the Company management's best knowledge about current events and transactions, actual outcomes may vary from those estimates and assumptions.

**3.35 Accounting policies, changes in accounting estimates and errors**

Material changes in accounting policies or material errors are corrected, retrospectively; by restating the prior period financial statements. The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

**3.36 Subsequent events**

Subsequent events and announcements related to net profit or even declared after other selective financial information has been publicly announced, include all events that take place between the balance sheet date and the date when the balance sheet is authorised for issue.

In the case that events requiring a correction to be made occur subsequent to the balance sheet date, the Company makes the necessary corrections to the financial statements.

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**NOTE 4 - CASH AND CASH EQUIVALENTS**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Banks - foreign currency time deposits	193,555,866	103,202,018
Banks - foreign currency demand deposits	34,396,424	73,576,127
Banks - YTL time deposits	123,127,466	20,631,283
Banks - YTL demand deposits	8,341,991	14,291,599
Cheques received	700,000	5,000
	<b>360,121,747</b>	<b>211,706,027</b>

The maturity period of time deposits is up to three months. The weighted average interest rate for the YTL time deposits is 18.33% (31 December 2006: 18.91%). The weighted average interest rate for foreign currency time deposits is 4.56% (31 December 2006: 3.62%).

The details for cash and cash equivalents presented in the cash flow statement as of 31 December 2007 and 2006 is as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Cash and banks	360,121,747	211,706,027	223,055,981
Less: Interest accruals	(430,253)	(219,819)	(519,487)
	<b>359,691,494</b>	<b>211,486,208</b>	<b>222,536,134</b>

**NOTE 5 - MARKETABLE SECURITIES**

There are no marketable securities as of 31 December 2007 and 2006.

**NOTE 6 – BORROWINGS**

	<b>31 December 2007</b>		<b>31 December 2006</b>	
	<b>Effective interest rate %</b>	<b>YTL amount</b>	<b>Effective interest rate %</b>	<b>YTL amount</b>
<b>Short-term borrowings:</b>				
- Euro	-	-	4.31	130,312,863
- YTL	-	-	-	3,642,097
		-		<b>133,954,960</b>

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**NOTE 6 – BORROWINGS (Continued)**

**Short-term portion of long-term borrowings:**

- Euro	5.38	108,019,674	4.45	221,514,382
- US Dollar	5.69	8,605,214	5.91	10,602,873
		<b>116,624,888</b>		<b>232,117,255</b>

**Long-term borrowings:**

- Euro	4.93	296,128,538	4.26	71,501,394
- US Dollar	5.81	3,258,585	5.94	14,021,541
		<b>299,387,123</b>		<b>85,522,935</b>

The redemption schedules of long-term bank borrowings as of 31 December 2007 and 2006 are as follows:

	<b>31 December 2007</b>			<b>31 December 2006</b>		
<b>Payment period</b>	<b>US Dollar denominated</b>	<b>Euro denominated</b>	<b>Total</b>	<b>US Dollar denominated</b>	<b>Euro denominated</b>	<b>Total</b>
2008	-	-	-	10,088,968	46,220,394	56,309,362
2009	3,258,585	113,882,664	117,141,249	3,932,573	11,360,276	15,292,849
2010	-	65,475,248	65,475,248	-	9,280,483	9,280,483
2011	-	39,811,633	39,811,633	-	4,640,241	4,640,241
2012	-	29,539,818	29,539,818	-	-	-
2013	-	29,539,818	29,539,818	-	-	-
2014	-	17,879,357	17,879,357	-	-	-
	<b>3,258,585</b>	<b>296,128,538</b>	<b>299,387,123</b>	<b>14,021,541</b>	<b>71,501,394</b>	<b>85,522,935</b>

The letter of bank guarantee given to financial institutions in connection with the long-term bank borrowings is amounting to YTL243,420,014 (31 December 2006: YTL100,103,121).

The borrowings with floating interest rates is amounting to YTL404,534,277 as of 31 December 2007 (31 December 2006: YTL434,364,930).

The exposure of the borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Year</b>		
6 months or less	410,229,485	441,162,543
6-12 months	-	-
1-5 years	5,782,526	10,432,607
	<b>416,012,011</b>	<b>451,595,150</b>

The carrying values of borrowings approximates to its fair values as the effect of the discounting of borrowings is not material.



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**NOTE 7 - TRADE RECEIVABLES AND PAYABLES**

**Short-term trade receivables:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade receivables	407,069,662	266,886,155
Cheques and notes receivable	3,326,936	5,685,665
Less: Unearned credit finance income	(1,843,944)	(233)
	<b>408,552,654</b>	<b>272,571,587</b>

The turnover of the Company's trade receivables is one month (31 December 2006: less than one month) and discounted with 0.9% effective interest rate.

The Company has collection guarantee agreement DDS with two banks in order to secure the collections regarding the vehicle sales. The Company has guarantee limit amounting to YTL379,375,000 (31 December 2006: YTL316,365,000) and a total receivable amounting to YTL569,399,588 (31 December 2006: YTL402,097,503) for the domestic sales to the dealers within the context of DDS as of 31 December 2007.

The Company secures its receivables resulting from spare part sales with guarantee letters. Within this context, the amount under guarantee amounts to YTL74,194,450 as of 31 December 2007 (31 December 2006: YTL69,484,150). Total receivables resulting from domestic spare part sales amounts to YTL89,755,488 as of 31 December 2007 (31 December 2006: payable YTL33,756,982 ).

97% of export sales is made to Ford Motor Company. The terms and the payment terms were determined in the business agreements made with Ford Motor Company. The term applied for receivables from Ford Motor Company is 14 days and these receivables are collected regularly (Note 9). The collection of the receivables resulting from export sales other than Ford Motor Company is secured in cash or via letter of credit.

The Company has no significant overdue receivables as of 31 December 2007 and 2006.

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Long-term trade receivables:</b>		
Deposits and guarantees given	40,694	11,791
	<b>40,694</b>	<b>11,791</b>

**Trade payables:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade payables	462,580,407	403,107,299
Less: Unearned credit finance charges	(1,049,069)	(59)
	<b>461,531,338</b>	<b>403,107,240</b>

The turnover of the Company's trade payables is 45 days (31 December 2006: 1 to 2 months) and discounted with 0.9% effective interest rate.

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**NOTE 8 - LEASING RECEIVABLES AND PAYABLES**

The Company does not have any leasing agreements.

**NOTE 9- DUE TO AND DUE FROM RELATED PARTIES**

Due to and due from related parties as of the period ends and transactions with related parties during the periods are given below:

**a) Due from related parties:**

**i) Short-term receivables**

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Due from shareholders:</b>		
Ford Motor Company and its subsidiaries	210,998,767	235,731,791
Koç Holding A.Ş. (*)	79,264,053	-
	<b>290,262,820</b>	<b>235,731,791</b>
<b>Due from related parties:</b>		
Otokoç Otomotiv Tic. ve San. A.Ş.	118,877,093	113,170,026
Beldeyama Motorlu Vasıtalar San. ve Tic. A.Ş.	4,484	4,137,230
Other	223,197	291,063
	119,104,774	117,598,319
Less: Unearned credit finance income	(2,423,919)	(335)
	<b>406,943,675</b>	<b>353,329,775</b>

**ii) Long-term receivables**

**Due from shareholders:**

Koç Holding A.Ş. (*)	-	95,658,584
Less: Unearned credit finance income	-	(6,850,798)
	-	<b>88,807,786</b>

(\*) The Company disposed 1.31% of its shares in Koç Finansal Hizmetler A.Ş. to Koç Holding A.Ş. in December 2006. The receivable resulting from the disposal of the shares will be collected in 30 June 2008. Unearned credit finance income is calculated using an effective interest rate of 5.19% (Notes 16 and 38). The receivable from Koç Holding is re-classed in short-term due from shareholders as of 31 December 2007.

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**NOTE 9- DUE TO AND DUE FROM RELATED PARTIES (Continued)**

**b) Due to related parties:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Due to shareholders:</b>		
Ford Motor Company and its subsidiaries	59,932,555	62,212,220
Koç Holding A.Ş.	1,565,158	380,961
Koç Allianz Sigorta T.A.Ş.	269,638	209,425
	<b>61,767,351</b>	<b>62,802,606</b>

**Due to related parties:**

Zer Merkezi Hizmetler ve Ticaret A.Ş. (*)	13,842,276	4,049,792
Palmira Turizm Ticaret A.Ş.	2,633,870	2,133,876
Migros Türk Ticaret A.Ş.	2,491,587	2,274,314
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	1,692,593	1,231,891
Opet Petrolcülük A.Ş.	1,252,372	-
Koç Sistem Bilgi ve İletişim Hizm. A.Ş.	1,114,292	1,661,419
Yapı ve Kredi Bankası A.Ş.	1,016,350	1,762,970
Koç Tüketici Finansmanı A.Ş.	822,456	3,570,553
Arçelik A.Ş.	691,956	54,411
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	685,564	852,005
Ram Sigorta Aracılık Hizmetleri A.Ş.	649,609	313,957
Tam Pazarlama ve İletişim Hizmetleri A.Ş.	438,039	499,814
Setur Servis Turistik A.Ş.	392,606	555,183
Promena Elektronik Ticaret A.Ş.	307,635	74,044
Koç.net Haberleşme Teknoloji ve İletişim Hizmetleri A.Ş.	223,711	98,653
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	177,628	134,134
V.K.V. Amerikan Hastanesi	167,749	40,531
Ark İnşaat A.Ş.	-	2,864,383
Ram Dış Ticaret A.Ş.	-	141,992
Other	184,011	293,861
	<b>28,784,304</b>	<b>22,607,783</b>
Less: Unearned credit finance charges	(70,036)	(16)

**90,481,619** **85,410,373**

(\*) The corporate name of Beko Ticaret A.Ş. has changed as Zer Merkezi Hizmetler ve Ticaret A.Ş. as of March 2007.

Payables to Ford Motor Company comprise vehicle and material stocks in transit, license fees and engineering expenses for the new projects.

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**NOTE 9 - DUE TO AND DUE FROM RELATED PARTIES (Continued)**

**c) Sales to related parties:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Ford Motor Company and its subsidiaries	4,345,084,061	3,511,559,097
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	793,072,796	824,090,607
Birleşik Motor San. ve Tic. A.Ş.	16,305,312	-
Beldeyama Motorlu Vasıtalar San. A.Ş.	1,491,114	6,192,984
Türk Traktör ve Ziraat Makineleri A.Ş.	1,234,692	2,409,756
Döktaş Dökümcülük Tic. San. A.Ş.	-	8,451,767
Other	998,507	655,929
	5,158,186,482	4,353,360,140
Less: Financial income from credit sales	(3,967,323)	(7,522,513)
	<b>5,154,219,159</b>	<b>4,345,837,627</b>

(\*) Sales to Döktaş Dökümcülük Tic. San. A.Ş. has not been included within sales to related parties in 2007 since Koç Holding A.Ş. sold its shares in this company on October 2006.

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**NOTE 9 - DUE TO AND DUE FROM RELATED PARTIES (Continued)**

**d) Major material, service and fixed asset purchases:**

	<b>1 January - 31 December 2007</b>			
	<b>Materials</b>	<b>Services</b>	<b>Fixed assets</b>	<b>Total</b>
<b>Domestic purchases:</b>				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	33,568,987	-	33,568,987
Palmira Turizm Ticaret A.Ş.	-	12,478,519	-	12,478,519
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	7,847,130	-	2,500	7,849,630
Ram Sigorta Aracılık Hizmetleri A.Ş.	-	7,228,730	-	7,228,730
Opet Petrolcülük A.Ş.	6,343,117	-	-	6,343,117
Koçtaş Yapı Marketleri San. ve Tic. A.Ş.	5,824,050	-	22,944	5,846,994
Koç Holding A.Ş.	-	5,821,740	-	5,821,740
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	2,983,878	-	1,511,767	4,495,645
Migros Türk Ticaret A.Ş.	-	4,120,128	-	4,120,128
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	733,482	2,373,666	3,107,148
Setur Servis Turistik A.Ş.	-	2,875,950	-	2,875,950
Tam Pazarlama ve İletişim Hizmetleri A.Ş.	-	976,885	-	976,885
Koç.net Haberleşme Teknoloji ve İletişim Hizmetleri A.Ş.	-	556,204	166,979	723,183
Arçelik A.Ş.	595,347	-	30,992	626,339
Promena Elektronik Ticaret A.Ş.	-	625,588	-	625,588
Ark İnşaat A.Ş.	-	-	460,312	460,312
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	449,056	-	-	449,056
V.K.V. Amerikan Hastanesi	-	433,962	-	433,962
Birleşik Oksijen Sanayi A.Ş.	368,800	-	-	368,800
Ram Dış Ticaret A.Ş.	232,137	-	-	232,137
Setair Hava Taşımacılığı ve Hizmetleri A.Ş.	-	176,607	-	176,607
Sanal Merkez Ticaret A.Ş.	-	154,418	-	154,418
Koç Üniversitesi	-	116,799	-	116,799
Aygaz A.Ş.	110,980	-	-	110,980
Otokar Otobüs Karoseri Sanayi A.Ş.	106,146	-	-	106,146
Beko Elektronik A.Ş.	89,600	-	-	89,600
Otomotiv Lastikleri Tevzii A.Ş.	77,139	-	-	77,139
Tofaş Türk Otomobil Fabrikası A.Ş.	64,665	-	-	64,665
Birleşik Motor San. ve Tic. A.Ş.	-	950	-	950
Otoyol Sanayi A.Ş.	814	-	-	814
	25,092,859	69,868,949	4,569,160	99,530,968
Less: Unearned credit finance charges	(2,825,289)	-	-	(2,825,289)
	<b>22,267,570</b>	<b>69,868,949</b>	<b>4,569,160</b>	<b>96,705,679</b>

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**NOTE 9 - DUE TO AND DUE FROM RELATED PARTIES (Continued)**

	<b>1 January - 31 December 2006</b>			
	<b><u>Materials</u></b>	<b><u>Services</u></b>	<b><u>Fixed assets</u></b>	<b><u>Total</u></b>
<b>Domestic purchases:</b>				
Döktaş Dökümcülük Tic. San. A.Ş.	48,194,872	-	2,119,352	50,314,224
Beko Ticaret A.Ş.	-	20,378,610	-	20,378,610
Ark İnşaat A.Ş.	-	-	12,141,617	12,141,617
Eltek Elektrik Enerji				
İthalat İhracat ve Toptancılık Ticaret A.Ş.	12,008,300	-	-	12,008,300
Palmira Turizm Ticaret A.Ş.	-	11,483,131	-	11,483,131
Ram Sigorta Aracılık Hizmetleri A.Ş.	-	9,639,412	-	9,639,412
AKPA Dayanıklı Tüketim LPG ve				
Akaryakıt Ürünleri Pazarlama A.Ş.	8,428,366	-	-	8,428,366
Ram Dış Ticaret A.Ş.	6,172,182	-	-	6,172,182
Koç Holding A.Ş.	-	5,441,694	-	5,441,694
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	2,743,547	-	2,367,798	5,111,345
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	1,302,721	2,856,993	4,159,714
Koçtaş Yapı Marketleri				
Sanayi ve Ticaret A.Ş.	4,131,998	-	10,593	4,142,591
Migros Türk Ticaret A.Ş.	-	3,935,953	-	3,935,953
Setur Servis Turistik A.Ş.	-	3,477,638	-	3,477,638
Eltek Elektrik Enerjisi A.Ş.	2,338,914	-	-	2,338,914
Tam Pazarlama ve İletişim Hizmetleri A.Ş.	-	1,143,135	-	1,143,135
Opet Petrolcülük A.Ş.	930,852	-	-	930,852
Promena Elektronik Ticaret A.Ş.	-	854,750	-	854,750
Birleşik Oksijen Sanayi A.Ş.	692,078	-	121,661	813,739
Otokar Otobüs Karoseri Sanayi A.Ş.	540,349	-	65,323	605,672
Koç Allianz Sigorta T.A.Ş.	-	591,059	-	591,059
V.K.V. Amerikan Hastanesi	-	583,802	-	583,802
İzocam Ticaret ve Sanayi A.Ş.	-	-	551,991	551,991
Koç.net Haberleşme Teknoloji ve				
İletişim Hizmetleri A.Ş.	-	477,487	34,078	511,565
Tofaş Türk Otomobil Fabrikası A.Ş.	347,803	-	-	347,803
Aygaz A.Ş.	183,051	-	-	183,051
Arçelik A.Ş.	145,404	-	4,798	150,202
Setair Hava Taşımacılığı ve Hizmetleri A.Ş.	-	142,528	-	142,528
Sanal Merkez Ticaret A.Ş.	-	115,764	-	115,764
Koç Üniversitesi	-	112,601	-	112,601
Koç Bryce Eğitim Hizmetleri A.Ş.	-	91,131	-	91,131
Otomotiv Lastikleri Tevzii A.Ş.	88,196	-	-	88,196
Beko Elektronik A.Ş.	26,346	-	34,711	61,057
Amerikan Hast. İntermed Sağ. Hiz.	-	54,579	-	54,579
Divan A.Ş.	-	27,699	-	27,699
Entek Elektrik Üretimi				
Otoprodüktör Grubu A.Ş.	3,671	-	10,432	14,103
Rahmi M. Koç Müzecilik Vakfı	-	936	-	936
	86,975,929	59,854,630	20,319,347	167,149,906
Less: Unearned credit finance charges	(9,584,007)	-	-	(9,584,007)
	<b>77,391,922</b>	<b>59,854,630</b>	<b>20,319,347</b>	<b>157,565,899</b>

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**NOTE 9 - DUE TO AND DUE FROM RELATED PARTIES (Continued)**

<b>Import purchases:</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Ford Motor Company	2,888,292,366	2,717,165,982
Kofisa S.A. (*)	-	70,273,576
	<b>2,888,292,366</b>	<b>2,787,439,558</b>

Since Kofisa S.A. shareholders have changed during 2006, the purchases are not disclosed in purchases from related parties in 2007.

**e) Licence fees paid to Ford Motor Company and included in cost of sales:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
	54,452,406	55,262,778

**f) Donations to foundations related to Koç Group, included in general administrative expenses:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
	12,236,980	11,195,482

**g) The details of deposits to related banks and borrowings received from related banks are as follows:**

<b>Deposits to related banks:</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Yapı ve Kredi Bankası A.Ş.		
- Foreign currency time deposits	115,848,411	-
- Foreign currency demand deposits	31,817,238	53,022,404
- YTL time deposits	21,724,200	8,611,716
- YTL demand deposits	563,417	6,339,190
	<b>169,953,266</b>	<b>67,973,310</b>

<b>Borrowings received from related banks:</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Yapı ve Kredi Bankası A.Ş.	-	3,642,097

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**NOTE 9 - DUE TO AND DUE FROM RELATED PARTIES (Continued)**

**h) Commission expenses:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Koç Tüketici Finansmanı A.Ş.	16,260,727	55,951,759
Yapı ve Kredi Bankası A.Ş.	7,248,867	30,769,881
	<b>23,509,594</b>	<b>86,721,640</b>

Commissions paid to Koç Tüketici Finansmanı A.Ş. and Yapı ve Kredi Bankası A.Ş. are recorded as sales discounts.

**i) Dividend income:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Otokar Otobüs Karoseri San. A.Ş.	175,749	-
Entek Elektrik Otoprodüktör Grubu A.Ş.	-	56,240
	<b>175,749</b>	<b>56,240</b>

**j) Remuneration paid to top management:**

Remuneration paid to top management by the Company is YTL8,995,428 in 2007 (31 December 2006: YTL7,964,963).

**NOTE 10- OTHER RECEIVABLES AND PAYABLES**

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Other receivables:</b>		
Prepaid taxes and funds	757,646	648,381
Receivables from personnel	524,106	848,341
Other	392,798	211,536
	<b>1,674,550</b>	<b>1,708,258</b>

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Other liabilities:</b>		
Warranty expense provision	74,711,814	59,766,836
Taxes, withholdings and duties payable	25,567,711	21,331,754
Variable marketing provision	22,745,025	30,170,343
Accrued expenses	15,565,758	2,230,485
Payables to personnel	12,126,022	8,292,295
Payables to engineering companies	9,292,440	1,929,370
Other	1,612,518	4,356,236
	<b>161,621,288</b>	<b>128,077,319</b>

Variable marketing provision is primarily composed of expense accruals related to the inventories at dealers at the balance sheet date (Note 3.24).



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**NOTE 11– BIOLOGICAL ASSETS**

Biological assets are not included in the operations of the Company.

**NOTE 12– INVENTORIES**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Raw materials	189,895,085	163,375,198
Finished goods	37,531,276	68,777,883
Spare parts	41,913,422	57,616,518
Imported vehicles	18,514,988	53,198,939
Import and domestic purchase advances	87,073,193	30,072,200
	<b>374,927,964</b>	<b>373,040,738</b>
Less: Provision for impairment of finished goods and spare parts	(1,505,615)	-
	<b>373,422,349</b>	<b>373,040,738</b>

**NOTE 13 – CONSTRUCTION CONTRACT RECEIVABLES AND PROGRESS BILLING**

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

**NOTE 14 – DEFERRED TAX ASSETS AND LIABILITIES**

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

The Company decided to utilise the investment incentive allowance in the corporate income tax calculation for years 2006, 2007 and 2008. Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in the period where the investment incentive allowance is utilised, under the liability method using an effective tax rate of 30%. The Company uses an effective tax rate of 20% on temporary differences that are expected to be realised or settled after 2009.

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**NOTE 14 - DEFERRED TAX ASSETS AND LIABILITIES (Continued)**

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 31 December 2007 and 2006 using the current enacted tax rates is as follows:

	<b>Cumulative temporary differences</b>		<b>Deferred tax assets /(liabilities)</b>	
	<b>31 December 2007</b>	<b>31 December 2006</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Deferred tax assets:</b>				
Employment termination benefits	23,797,859	23,784,444	4,759,572	4,756,889
Unutilised investment incentive allowance earned	671,242,471	1,205,745,510	68,466,732	122,986,042
Warranty expense provision	74,711,814	59,766,836	14,942,363	11,953,367
Expense accruals	43,620,336	27,301,763	9,588,121	5,562,414
Inventories	(1,707,301)	(1,241,140)	512,190	372,342
Unearned credit finance expense-net	1,259,995	643	377,998	148
	812,925,174	1,315,358,056	98,646,976	145,631,202
<b>Deferred tax liability:</b>				
Difference between the financial statements prepared in accordance with CMB Accounting Standards and tax financial statements:				
- of property, plant and equipment	594,095,487	498,221,994	(118,819,097)	(99,644,399)
- of intangible assets	78,800,968	106,929,821	(17,966,621)	(27,115,912)
Income accruals	9,938,247	20,387,477	(2,125,351)	(5,986,243)
	682,834,702	625,539,292	(138,911,069)	(132,746,554)
<b>Net deferred tax (liabilities)/asset</b>			<b>(40,264,093)</b>	<b>12,884,648</b>

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**NOTE 14 - DEFERRED TAX ASSETS AND LIABILITIES (Continued)**

The Company did not recognize the deferred tax assets as of 31 December 2007 for unutilized investment incentive allowance earned amounting to YTL276 million (31 December 2006: YTL242 million) as there is an uncertainty about the future taxable profit that will be available against which these deferred tax assets can be utilised.

Movements in deferred income taxes can be analysed as follows:

	<b>1 January 2007</b>	<b>Charged/(credited) to profit and loss</b>	<b>31 December 2007</b>
<b>Deferred income tax liabilities:</b>			
Difference between the financial statements prepared in accordance with CMB Accounting Standards and tax financial statements	(126,760,311)	(10,025,407)	(136,785,718)
Income accruals	(5,986,243)	3,860,892	(2,125,351)
<b>Deferred income tax assets:</b>			
Provision for employment termination benefits	4,756,889	2,683	4,759,572
Unutilized investment incentive allowance earned	122,986,042	(54,519,310)	68,466,732
Warranty expense provision	11,953,367	2,988,996	14,942,363
Expense accruals	5,562,414	4,025,707	9,588,121
Inventories	372,342	139,848	512,190
Unearned credit finance income - net	148	377,850	377,998
<b>Net deferred tax asset/(liabilities)</b>	<b>12,884,648</b>	<b>(53,148,741)</b>	<b>(40,264,093)</b>

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**NOTE 14 – DEFERRED TAX ASSETS AND LIABILITIES (Continued)**

	<b>1 January 2006</b>	<b>Charged/(credited) to profit and loss</b>	<b>31 December 2006</b>
<b>Deferred income tax liabilities:</b>			
Difference between the financial statements prepared in accordance with CMB Accounting Standards and tax financial statements	(168,908,123)	42,147,812	(126,760,311)
Income accruals	(12,408,621)	6,422,378	(5,986,243)
<b>Deferred income tax assets:</b>			
Provision for employment termination benefits	5,768,741	(1,011,852)	4,756,889
Unutilized investment incentive allowance earned	186,060,663	(63,074,621)	122,986,042
Inventories	(999,467)	1,371,809	372,342
Unearned credit finance income - net	(18,542)	18,690	148
Expense accruals	23,084,783	(5,569,002)	17,515,781
<b>Net deferred tax asset</b>	<b>32,579,434</b>	<b>(19,694,786)</b>	<b>12,884,648</b>

**NOTE 15 – OTHER CURRENT NON-CURRENT ASSETS AND OTHER CURRENT  
NON-CURRENT LIABILITIES**

**Other current assets:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Value Added Tax (VAT) carried forward	43,260,692	49,763,393
VAT to be deducted	32,753,436	32,589,472
Prepaid expenses	3,198,483	4,591,446
Receivables from suppliers	1,467,151	3,850,662
Other	1,979,802	646,288
	<b>82,659,564</b>	<b>91,441,261</b>

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**NOTE 16 – FINANCIAL ASSETS**

Available for sale financial investments	31 December 2007		31 December 2006	
	Shareholding percentage %	Amount	Shareholding percentage %	Amount
Otokar Otobüs Karoseri Sanayi A.Ş. (*)	0.59	2,826,043	0.59	2,137,107
Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş. (**)	-	-	7.99	14,398,725
<b>Total</b>		<b>2,826,043</b>		<b>16,535,832</b>

(\*) The Company's share in Otokar Otobüs Karoseri Sanayi A.Ş. has been stated at market value at 31 December 2007 and 2006 which is assumed to approximate its fair value.

(\*\*) The Company has sold all of its shares in Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş. to Aygaz A.Ş. for a cash consideration YTL14,398,725. The net income amounting to YTL8,364,981 arising from this sale is classified under non-operating income in the statement of income(Note 38).

**NOTE 17 – GOODWILL/NEGATIVE GOODWILL**

None.

**NOTE 18 – INVESTMENT PROPERTY**

The Company does not have investment property.

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**NOTE 19 – PROPERTY, PLANT AND EQUIPMENT**

	Land	Land improvements	Buildings	Machinery and equipment	Moulds	Furniture and fixtures	Motor vehicles	Advances and construction in progress	Total
<b>31 December 2006</b>									
Cost	11,917,784	83,756,245	365,416,615	1,218,417,015	504,159,061	62,543,615	8,735,287	93,845,675	2,348,791,297
Accumulated depreciation	-	(16,362,932)	(76,472,361)	(543,307,382)	(372,275,553)	(45,098,300)	(1,635,420)	-	(1,055,151,948)
<b>Net book value</b>	<b>11,917,784</b>	<b>67,393,313</b>	<b>288,944,254</b>	<b>675,109,633</b>	<b>131,883,508</b>	<b>17,445,315</b>	<b>7,099,867</b>	<b>93,845,675</b>	<b>1,293,639,349</b>
<b>For the year ended 31 December 2007</b>									
Opening net book value	11,917,784	67,393,313	288,944,254	675,109,633	131,883,508	17,445,315	7,099,867	93,845,675	1,293,639,349
Additions	91,397	11,953	-	25,849,339	-	7,133,085	3,285,229	102,766,670	139,137,673
Transfers	-	3,035,298	2,085,062	139,904,702	34,903,285	311,486	-	(180,239,833)	-
Disposals	-	-	-	(3,708,589)	(530,470)	(1,808,902)	(2,493,405)	-	(8,541,366)
Depreciation charge	-	(2,702,380)	(11,421,720)	(63,761,007)	(38,499,112)	(4,521,313)	(839,719)	-	(121,745,251)
Disposals from accumulated depreciation	-	-	-	3,348,351	530,470	473,168	910,933	-	5,262,922
<b>Closing net book value</b>	<b>12,009,181</b>	<b>67,738,184</b>	<b>279,607,596</b>	<b>776,742,429</b>	<b>128,287,681</b>	<b>19,032,839</b>	<b>7,962,905</b>	<b>16,372,512</b>	<b>1,307,753,327</b>
<b>31 December 2007</b>									
Cost	12,009,181	86,803,496	367,501,677	1,380,462,467	538,531,876	68,179,284	9,527,111	16,372,512	2,479,387,604
Accumulated depreciation	-	(19,065,312)	(87,894,081)	(603,720,038)	(410,244,195)	(49,146,445)	(1,564,206)	-	(1,171,634,277)
<b>Net book value</b>	<b>12,009,181</b>	<b>67,738,184</b>	<b>279,607,596</b>	<b>776,742,429</b>	<b>128,287,681</b>	<b>19,032,839</b>	<b>7,962,905</b>	<b>16,372,512</b>	<b>1,307,753,327</b>

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**NOTE 19 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

	Land	Land improvements	Buildings	Machinery and equipment	Moulds	Furniture and fixtures	Motor vehicles	Advances and construction in progress	Total
<b>31 December 2005</b>									
Cost	11,917,784	80,916,245	341,472,392	1,116,143,672	453,732,713	57,392,233	10,894,047	81,866,801	2,154,335,887
Accumulated depreciation	-	(13,766,044)	(65,794,809)	(485,380,528)	(332,736,910)	(42,979,218)	(4,147,376)	-	(944,804,885)
<b>Net book value</b>	<b>11,917,784</b>	<b>67,150,201</b>	<b>275,677,583</b>	<b>630,763,144</b>	<b>120,995,803</b>	<b>14,413,015</b>	<b>6,746,671</b>	<b>81,866,801</b>	<b>1,209,531,002</b>
<b>For the year ended 31 December 2006</b>									
Opening net book value	11,917,784	67,150,201	275,677,583	630,763,144	120,995,803	14,413,015	6,746,671	81,866,801	1,209,531,002
Additions	-	-	-	20,938,776	-	5,213,954	2,947,516	171,075,279	200,175,525
Transfers	-	2,840,000	23,944,223	81,783,353	50,525,994	2,835	-	(159,096,405)	-
Disposals	-	-	-	(448,785)	(99,646)	(65,407)	(5,106,276)	-	(5,720,114)
Depreciation charge	-	(2,596,888)	(10,677,552)	(58,338,697)	(39,638,289)	(2,183,415)	(583,992)	-	(114,018,833)
Disposals from accumulated depreciation	-	-	-	411,842	99,646	64,333	3,095,948	-	3,671,769
<b>Closing net book value</b>	<b>11,917,784</b>	<b>67,393,313</b>	<b>288,944,254</b>	<b>675,109,633</b>	<b>131,883,508</b>	<b>17,445,315</b>	<b>7,099,867</b>	<b>93,845,675</b>	<b>1,293,639,349</b>
<b>31 December 2006</b>									
Cost	11,917,784	83,756,245	365,416,615	1,218,417,015	504,159,061	62,543,615	8,735,287	93,845,675	2,348,791,297
Accumulated depreciation	-	(16,362,932)	(76,472,361)	(543,307,382)	(372,275,553)	(45,098,300)	(1,635,420)	-	(1,055,151,948)
<b>Net book value</b>	<b>11,917,784</b>	<b>67,393,313</b>	<b>288,944,254</b>	<b>675,109,633</b>	<b>131,883,508</b>	<b>17,445,315</b>	<b>7,099,867</b>	<b>93,845,675</b>	<b>1,293,639,349</b>

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**NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (Continued)**

The carrying amounts of fully depreciated property, plant and equipment still in use are as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Moulds and models	169,480,253	170,010,634
Machinery and equipment	95,223,759	98,029,650
Furniture and fixtures	37,258,514	32,303,185
Buildings	5,529,499	5,529,499
Motor vehicles	444,210	657,487
Land improvements	237,300	237,300
	<b>308,173,535</b>	<b>306,767,755</b>

The Board of Directors has authorised management with the decision taken in December 2005 to spend a total amount of Euro225 million to increase the production capacity of Kocaeli Factory from 240,000 vehicles to 280,000 vehicles, renew the Ford Transit model, develop the new Transit engine and produce the engines in İnönü plant, renew the Ford Transit Connect and develop the new Cargo engine. The capital expenditure made by the Company in relation to these projects from the beginning of 2005 to the ending of 2007 amounted to Euro208.5 million (31 December 2006: Euro154 million).

The Board of Directors has authorised management with the decision taken December 2006 to make capital expenditures amounting to Euro13.4 million to increase the production capacity of the Kocaeli plant from 280,000 vehicles to 300,000 vehicles and Euro7.5 million has been utilised for this project (31 December 2006: None). The Company has increased its capacity to 300,000 vehicles as of October 2007.

The allocation of depreciation charge as of 31 December 2007 and 2006 are as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Cost of goods sold	115,990,381	108,556,131
General administrative expenses (Note 37)	2,871,570	2,951,450
Research and development expenses (Note 37)	1,256,258	1,380,205
Sales and marketing expenses (Note 37)	1,627,042	1,131,047
Current year depreciation charge	<b>121,745,251</b>	<b>114,018,833</b>



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**NOTE 20 – INTANGIBLE ASSETS**

	<b>Rights</b>	<b>Development costs</b>	<b>Special costs</b>	<b>Total</b>
<b>31 December 2006</b>				
Cost	17,060,225	402,000,662	719,300	419,780,187
Accumulated amortisation	(13,359,440)	(297,081,199)	(719,300)	(311,159,939)
<b>Net book value</b>	<b>3,700,785</b>	<b>104,919,463</b>	<b>-</b>	<b>108,620,248</b>
<b>For the period ended at 31 December 2007</b>				
Opening net book value	3,700,785	104,919,463	-	108,620,248
Additions	790,929	19,718,756	773,026	21,282,711
Amortisation charge for the year	(1,233,261)	(34,774,686)	(12,884)	(36,020,831)
<b>Closing net book value</b>	<b>3,258,453</b>	<b>89,863,533</b>	<b>760,142</b>	<b>93,882,128</b>
<b>31 December 2007</b>				
Cost	17,851,154	421,719,418	1,492,326	441,062,898
Accumulated amortisation	(14,592,701)	(331,855,885)	(732,184)	(347,180,770)
<b>Net book value</b>	<b>3,258,453</b>	<b>89,863,533</b>	<b>760,142</b>	<b>93,882,128</b>
<b>31 December 2005</b>				
Cost	16,072,253	371,949,535	719,300	388,741,088
Accumulated amortisation	(12,218,038)	(230,554,315)	(719,300)	(243,491,653)
<b>Net book value</b>	<b>3,854,215</b>	<b>141,395,220</b>	<b>-</b>	<b>145,249,435</b>
<b>For the period ended at 31 December 2006</b>				
Opening net book value	3,854,215	141,395,220	-	145,249,435
Additions	987,972	30,051,127	-	31,039,099
Amortisation charge for the year	(1,141,402)	(66,526,884)	-	(67,668,286)
<b>Closing net book value</b>	<b>3,700,785</b>	<b>104,919,463</b>	<b>-</b>	<b>108,620,248</b>
<b>31 December 2006</b>				
Cost	17,060,225	402,000,662	719,300	419,780,187
Accumulated amortisation	(13,359,440)	(297,081,199)	(719,300)	(311,159,939)
<b>Net book value</b>	<b>3,700,785</b>	<b>104,919,463</b>	<b>-</b>	<b>108,620,248</b>

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**NOTE 20 – INTANGIBLE ASSETS (Continued)**

Additions to development costs are comprised of engineering expenses capitalised for the five-cylinder Transit Engine and Cargo Truck Engine.

The amortization charge from development costs amounting to YTL34,774,686 (31 December 2006 : YTL66,526,884) has been presented under cost of goods sold. The amortization charge for rights amounting to YTL1,233,261 (31 December 2006 : YTL1,141,402) has been presented under general administrative expenses. The amortization charge for special costs amounting to YTL12,884 (31 December 2006 : None) has been presented under research and development expenses.

**NOTE 21 – ADVANCES RECEIVED**

Advances received are classified under other short-term liabilities in the balance sheet.

	<b>31 December 2007</b>	<b>31 December 2006</b>
Advances received from customers	8,850,071	248,255
	<b>8,850,071</b>	<b>248,255</b>

**NOTE 22– RETIREMENT PLANS**

The Company has no liabilities concerning retirement plans.

**NOTE 23– PROVISIONS**

**Short-term provisions:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Tax provision (Note 41)	119,500,848	100,661,663
	<b>119,500,848</b>	<b>100,661,663</b>

**Long-term provisions:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Provision for employment termination benefits	23,797,859	23,784,444
	<b>23,797,859</b>	<b>23,784,444</b>

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**NOTE 23– PROVISIONS (Continued)**

**Provision for employment termination benefits**

There are no agreements for pension commitments other than the legal requirement as explained below.

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to the length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of YTL2,030.19 for each year of service as of 31 December 2007 (31 December 2006: YTL1,857.44).

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

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

IFRS require actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Discount rate (%)	5.71	5.71
Turnover rate to estimate the probability of retirement (%)	6	4

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Since the Company calculates the reserve for employment termination benefits every six months, the maximum amount of YTL2,087.92 which is effective from 1 January 2008 (1 January 2007: YTL1,960.69) has been taken into consideration in the calculations.

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

	<b>2007</b>	<b>2006</b>
<b>Balance at 1 January</b>	<b>23,784,444</b>	<b>19,229,136</b>
Paid during the year	(4,694,275)	(3,264,204)
Additions during the year	4,707,690	7,819,512
<b>31 December</b>	<b>23,797,859</b>	<b>23,784,444</b>

Variable marketing provision and warranty provisions are classified under other liabilities (Note 10).

**NOTE 24– MINORITY INTEREST**

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

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**NOTE 25– CAPITAL/ADJUSTMENT TO SHARE CAPITAL**

The composition of the Company's paid-in capital at 31 December 2007 and 2006 is as follows:

	<b>31 December 2007</b>	<b>Shareholding percentage (%)</b>	<b>31 December 2006</b>	<b>Shareholding percentage (%)</b>
Koç Holding A.Ş.	132,160,187	37.66	132,160,187	37.66
Vehbi Koç Vakfı	3,428,592	0.98	3,428,592	0.98
Koç Holding Emekli Yardım Sandığı Vakfı	3,259,202	0.93	3,259,202	0.93
Koç Allianz Sigorta T.A.Ş.	2,793,170	0.80	2,793,170	0.80
Temel Ticaret A.Ş.	2,355,885	0.67	2,355,885	0.67
Total Koç Group	143,997,036	41.04	143,997,036	41.04
Ford Motor Company	143,997,036	41.04	143,997,036	41.04
Other (publicly held)	62,915,928	17.92	62,915,928	17.92
	<b>350,910,000</b>	<b>100.00</b>	<b>350,910,000</b>	<b>100.00</b>

There are 35,091,000,000 shares (31 December 2006: 35,091,000,000) with a nominal value of YKr 1 each.

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

Retained earnings, as per the statutory financial statements, other than legal reserves, are available for distribution, subject to the legal reserve requirement referred to below.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in capital.

Quoted companies are subject to dividend requirements regulated by the CMB as follows:

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

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

In accordance with the Capital Market Board decision number 4/138 on 8 January 2008 the minimum profit distribution ratio requirement for incorporated companies listed on the Stock Exchange shall be applied as 20% (31 December 2006: 20%), effective from 1 January 2008. Accordingly this distribution, in line with decisions taken by the general assemblies, can be made either in cash, as shares to be issued by adding dividends to capital or as a combination of both. The related amount is not required to be distributed, in case the amount of initial dividend amount is less than 5% paid in capital. Nevertheless the companies which have increased their share capital without distributing profits from prior periods as their shares are reclassified as "old" and "new" shares, the initial profit distribution from net income from 2007 operations is required to be distributed in cash.

The Company decided in the General Assembly held on 27 March 2007 to distribute a total cash dividend from the year 2006 profit in the amount of YTL193,000,500 at the rate of 55%, by giving YKr 0.55 for each share worth YKr 1; the dividend distribution was realised in April 2007.

The Company decided to distribute a dividend amounting to YTL208,791,450 from the extraordinary reserves transferred from 2006 profit, in the Extraordinary General Assembly meeting on 2 October 2007. The dividend distribution was realized in October 2007.

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.

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

In accordance with Communiqué No: XI-25, at 31 December 2007 and 2006 the shareholders' equity schedules are as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Share capital	350,910,000	350,910,000
Share premium	8,252	8,252
Legal reserves	201,892,410	153,763,349
Special reserves	2	2
Extraordinary reserves	50,929,339	-
Financial assets fair value reserve	1,724,890	9,400,935
Inflation adjustments to shareholders' equity	456,221,527	456,221,527
Cash flow hedge reserve	-	(9,630,622)
Net income for the year	484,242,121	500,850,350
Retained earnings	169,889,063	169,889,063
<b>Total shareholders' equity</b>	<b>1,715,817,604</b>	<b>1,631,412,856</b>

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

At 31 December 2007 and 2006, the restated amounts and the shareholders' equity restatement differences of the aforementioned nominal values are as follows:

<b>31 December 2007:</b>		<b>Restated amounts</b>	<b>Shareholders' equity restatement differences</b>
	<b>Historical values</b>		
Share capital	350,910,000	378,830,283	27,920,283
Share premium	8,252	361,733	353,481
Legal reserves	201,892,410	260,645,014	58,752,604
Extraordinary reserves	50,929,339	420,074,355	369,145,016
Special reserves	2	50,145	50,143
	<b>603,740,003</b>	<b>1,059,961,530</b>	<b>456,221,527</b>

<b>31 December 2006:</b>		<b>Restated amounts</b>	<b>Shareholders' equity restatement differences</b>
	<b>Historical values</b>		
Share capital	350,910,000	378,830,283	27,920,283
Share premium	8,252	361,733	353,481
Legal reserves	153,763,349	212,515,953	58,752,604
Extraordinary reserves	-	369,145,016	369,145,016
Special reserves	2	50,145	50,143
	<b>504,681,603</b>	<b>960,903,130</b>	<b>456,221,527</b>

The retained earnings in the balance sheet prepared in accordance with the IFRS is YTL169,889,063 (31 December 2006: YTL169,889,063) as of 31 December 2007.

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**NOTE 29– FOREIGN CURRENCY POSITION**

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2007 and 2006. Included in the tables are the Company's foreign currency denominated assets and liabilities at carrying amounts, categorised by currency.

**31 December 2007**

	<b>US Dollar</b>		<b>EURO</b>		<b>Other</b>	<b>Total</b>
	<b>Original currency</b>	<b>YTL</b>	<b>Original currency</b>	<b>YTL</b>	<b>YTL</b>	
<b>Assets:</b>						
Cash and cash equivalents (Note 4)	5,507,890	6,415,040	129,478,483	221,434,101	103,149	227,952,290
Short-term receivables from related parties	78,208,734	91,089,713	113,154,358	193,516,583	3,372,909	287,979,205
Inventories	312,863	364,391	25,959,894	44,396,610	365,436	45,126,437
Trade receivables	819,383	954,335	7,881,071	13,478,207	-	14,432,542
Other current assets	43,717	50,917	320,771	548,583	-	599,500
	84,892,587	98,874,396	276,794,577	473,374,084	3,841,494	576,089,974
<b>Liabilities:</b>						
Short-term portion of long-term borrowings (Note 6)	(7,388,352)	(8,605,214)	(63,162,013)	(108,019,674)	-	(116,624,888)
Due to related parties	(16,707,750)	(19,459,516)	(22,343,896)	(38,212,531)	(2,214,481)	(59,886,528)
Trade payables	(505,035)	(588,214)	(20,313,910)	(34,740,849)	(163,764)	(35,492,827)
Other current liabilities	(7,765)	(9,044)	(8,262,280)	(14,130,152)	(235,254)	(14,374,450)
Long-term borrowings (Note 6)	(2,797,789)	(3,258,585)	(173,154,332)	(296,128,538)	-	(299,387,123)
	(27,406,691)	(31,920,573)	(287,236,431)	(491,231,744)	(2,613,499)	(525,765,816)
<b>Net foreign currency position</b>	<b>57,485,896</b>	<b>66,953,823</b>	<b>(10,441,854)</b>	<b>(17,857,660)</b>	<b>1,227,995</b>	<b>50,324,158</b>

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**NOTE 29 - FOREIGN CURRENCY POSITION (Continued)**

**31 December 2006**

	US Dollar Original currency	YTL	EURO Original currency	YTL	Other YTL	Total
<b>Assets:</b>						
Cash and cash equivalents (Note 4)	14,155,466	19,896,923	84,668,041	156,762,878	118,344	176,778,145
Short-term receivables from related parties	2,173,143	3,054,569	123,082,843	227,887,883	4,665,834	235,608,286
Long-term receivables from related parties (Note 9)	63,181,407	88,807,786	-	-	-	88,807,786
Inventories	115,217	161,949	15,336,622	28,395,756	528,425	29,086,130
Trade receivables	32,410	45,555	8,408,158	15,567,705	84,251	15,697,511
Other current assets	360,449	506,647	108	200	-	506,847
	80,018,092	112,473,429	231,495,772	428,614,422	5,396,854	546,484,705
<b>Liabilities:</b>						
Short-term borrowings	-	-	(70,382,319)	(130,312,863)	-	(130,312,863)
Short-term portion of long-term borrowings (Note 6)	(7,543,307)	(10,602,873)	(119,640,498)	(221,514,382)	-	(232,117,255)
Due to related parties	(12,787,405)	(17,973,977)	(23,822,472)	(44,107,307)	(502,132)	(62,583,416)
Trade payables	(474,093)	(666,385)	(9,721,133)	(17,998,678)	(2,359,878)	(21,024,941)
Other current liabilities	(436)	(613)	(950,900)	(1,760,591)	(514,743)	(2,275,947)
Long-term borrowings	(9,975,484)	(14,021,541)	(38,618,090)	(71,501,394)	-	(85,522,935)
	(30,780,725)	(43,265,389)	(263,135,412)	(487,195,215)	(3,376,753)	(533,837,357)
<b>Net foreign currency position</b>	<b>49,237,367</b>	<b>69,208,040</b>	<b>(31,639,640)</b>	<b>(58,580,793)</b>	<b>2,020,101</b>	<b>12,647,348</b>



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**NOTE 29 - FOREIGN CURRENCY POSITION (Continued)**

The Company is primarily exposed to foreign currency risk arising from US Dollar and Euro positions held.

At 31 December 2007, if the YTL had weakened/strengthened by 10% against the US dollar with all other variables held constant, net income for the year would have been YTL6,695,382 (31 December 2006 : YTL6,920,804) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated assets and liabilities.

At 31 December 2007, if the YTL had weakened/strengthened by 10% against the Euro with all other variables held constant, net income for the year would have been YTL1,785,766 (31 December 2006 : YTL5,858,079) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro denominated assets and liabilities.

**NOTE 30 – GOVERNMENT GRANTS**

The investment incentives earned but not deducted from the tax base as of the balance sheet date amount to YTL947 million (31 December 2006: YTL1,448 million). The Company expects to use investment incentives amounting to YTL671 million from the total investment incentives by the end of 2008 (Note 14).

In 2007, the Company earned investment incentives amounting to YTL10,796,775 (31 December 2006: YTL12,939,240) calculated as 40% of the period research and development expenditure of YTL26,991,938 (31 December 2006: YTL32,348,101) which will be deducted from the tax base without any withholding tax impacts.

The research and development support received from Tübitak in 2007 amounting to YTL19,569,495 (31 December 2006: YTL18,075,904) is classified under other income (Note 38).

**NOTE 31– PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Letters of guarantee given to banks	243,420,014	100,103,121
Letters of guarantee given to customs	25,454,175	23,834,961
Import order guarantees	458,505	15,501,589
	<b>269,332,694</b>	<b>139,439,671</b>

- a) The Company entered into two collar agreements in 2000, one of which is outstanding as of 31 December 2007. One of the agreements ended as of 31 August 2007. The value of the outstanding agreement as of balance sheet date amounts to Euro3,104,272 and this agreement have fixed floor and ceiling rates. Accordingly, at the dates defined in the agreements, if the EURIBOR rate is below the floor rate the Company compensates for the difference between the floor rate and the actual rate to the counter bank. Similarly, if the EURIBOR rate is above the ceiling rate, the counter bank compensates the difference to the Company.

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**NOTE 31– PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

Details of the collar agreement, which is valid as of 31 December 2007 are as follows:

<b>Agreement</b>	<b>EURIBOR Floor rate</b>	<b>EURIBOR Ceiling rate</b>	<b>Amount EURO</b>	<b>Due date</b>
Citibank	5.15%	6.00%	3,104,272	28 February 2008

The total amount charged to expenses relating to these agreements amounted to YTL136,316 (31 December 2006: YTL587,684).

- b) The Company entered into a credit agreement with Akbank T.A.Ş. in 2003. According to the terms of this agreement, the Company is required to ensure that its export proceeds up to an amount equal to Euro300,000,000 for each calendar year, except for last year, be received in a deposit account in Akbank T.A.Ş. In 2008, the last year of the agreement, the commitment will be Euro200,000,000. With the other credit agreements entered with Akbank in 2007, the Company is required to ensure that its export proceeds up to an amount equal to Euro69,000,000 in the year 2008 be received into a deposit account in Akbank T.A.Ş.
- c) Regarding the credit agreements made with HSBC (Value: Euro50,000,000) and Garanti Bankası (Value: Euro20,000,000) in 2007, the Company is required to ensure that its export proceeds up to an amount equal to Euro100,000,000 (via HSBC) and Euro50,000,000 (via Garanti Bankası) for the year 2008 be received into deposit accounts in these banks.
- d) Regarding the other credit agreements made by the Company, the Company is required to ensure that its export proceeds up to an amount equal to Euro20,000,000 (via Garanti Bankası), Euro25,000,000 (via İş Bankası) and Euro20,000,000 (via Ziraat Bankası) for the year 2008 be received into deposit accounts in these banks.

The Company fulfilled its export commitments with banks in 2007 as of 31 December 2007.

**NOTE 32– BUSINESS COMBINATIONS**

There are no business combinations as of balance sheet dates.

**NOTE 33– SEGMENT REPORTING**

The Company management has decided to use business segments for primary segment reporting considering that the risks and returns of the Company are affected by the developments in the automotive industry rather than differences in geographical regions. Management believes that the Company is operating under one business segment as the scope of business for the Company is the production, import and sale of motor vehicles and spare parts and as there is no significant difference in terms of risk and return between these activities. Nature of products, nature of production processes, type of customers methods used to distribute the products are similar. Information regarding primary segment has already been presented as full in these financial statements since there is one business segment.

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**NOTE 33– SEGMENT REPORTING (Continued)**

As the primary reporting format of the Company is the business segment, the disclosure of revenues based on the geographical locations of customers is required for secondary segment reporting as disclosed in Note 36 to the financial statements.

As all Company assets are located in Turkey, the carrying values of assets within this segment as well as the costs of the related assets, which both need to be disclosed within the secondary segment reporting framework, have not been disclosed separately.

**NOTE 34– SUBSEQUENT EVENTS**

There is no significant event, affecting the financial statements after the balance sheet date.

**NOTE 35– DISCONTINUED OPERATIONS**

The Company has no discontinuing operations at the balance sheet date.

**NOTE 36– OPERATING INCOME**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Domestic sales	3,304,979,418	3,462,204,695
Foreign sales	4,480,062,276	3,574,574,674
Other sales	42,171,829	42,462,614
Less: Discounts	(596,583,435)	(557,942,638)
	<b>7,230,630,088</b>	<b>6,521,299,345</b>

Sales to Ford of Britain comprises 95% of foreign sales (31 December 2006: 98%).

<b>Unit sales:</b>	<b>1 January - 31 December 2007</b>			<b>1 January - 31 December 2006</b>		
	Domestic sales	Foreign sales	Total sales	Domestic sales	Foreign sales	Total sales
Transit	34,915	134,631	169,546	35,365	101,843	137,208
Transit Connect	27,979	85,324	113,303	28,801	82,398	111,199
Passenger cars	32,032	378	32,410	37,865	539	38,404
Cargo	4,339	2,007	6,346	7,109	507	7,616
Ranger	2,164	2	2,166	2,023	71	2,094
Fiesta Van	1,271	53	1,324	1,575	-	1,575
<b>Total</b>	<b>102,700</b>	<b>222,395</b>	<b>325,095</b>	<b>112,738</b>	<b>185,358</b>	<b>298,096</b>

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**NOTE 37– OPERATING EXPENSES**

**Research and development expenses:**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Personnel expenses	32,383,649	21,228,812
Project costs	21,573,682	16,013,818
Depreciation charge (Note 19)	1,256,258	1,380,205
Other	3,252,850	3,208,860
	<b>58,466,439</b>	<b>41,831,695</b>

**General administrative expenses:**

Personnel expenses	36,154,833	29,745,535
Consulting and auditing expenses	12,841,508	5,549,015
Grants and donations	12,698,880	11,329,975
Information technology expenses	3,034,228	5,067,151
Depreciation charge (Note 19)	2,871,570	2,951,450
Duties, taxes and levies	2,629,864	1,653,943
Repair, maintenance and energy expenses	2,125,253	2,827,151
Travel expenses	1,791,008	1,680,568
Other guarantee expenses	1,556,873	1,618,674
New project administrative expenses	773,673	2,898,658
Other	7,308,260	5,668,633
	<b>83,785,950</b>	<b>70,990,753</b>

**Sales and marketing expenses:**

Warranty expenses	118,135,007	103,946,652
Advertising expenses	45,591,527	37,154,153
Transportation expenses	28,835,514	28,262,138
Personnel expenses	23,628,861	21,328,055
Spare parts transportation and packaging expenses	9,191,734	7,405,335
Branch and service development expenses	5,632,307	8,315,977
Depreciation charge (Note 19)	1,627,042	1,131,047
Other	12,016,478	9,166,594
	<b>244,658,470</b>	<b>216,709,951</b>

<b>Total operating expenses</b>	<b>386,910,859</b>	<b>329,532,399</b>
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As of 31 December 2007 development expenses amounting YTL19,718,756 (31 December 2006: YTL30,051,127) have been capitalised under intangible assets and not charged as research and development expenses in the relevant periods.

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**NOTE 38– OTHER INCOME/EXPENSES AND PROFIT/LOSSES**

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Other income:</b>		
Research and development support premium (Note 30)	19,569,495	18,075,904
Income from sale of financial assets (*)	8,364,981	47,971,875
Compensation for spare parts and materials	7,024,135	4,913,318
Invoiced service revenue	3,756,731	2,911,290
Rent income	2,274,338	2,074,889
Insurance claim recoveries	1,371,219	1,560,537
Income from and sale of property, plant and equipment	502,928	1,406,910
Dividend income	175,749	56,240
Revenue from services sold to Ford	-	11,269,119
Other	1,977,708	713,416
<b>Other income</b>	<b>45,017,284</b>	<b>90,953,498</b>

Due to materiality comparative amounts classified under other income and expenses at 31 December 2006 have not been reclassified

(\*) The Company sold all of its shares in Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş. to Aygaz A.Ş. in December 2007 at a price amounting to YTL14,398,725 (Note 16). The Company sold all of its shares in Koç Finansal Hizmetler A.Ş. to Koç Holding A.Ş. at a price of YTL95,423,377 (USD67,265,880) including interest. Based on the agreement, this amount will be collected on 30 June 2008 (Note 9a). Net income arising from this sale (which amounts to YTL47,971,875) is classified under other income in income statement.

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Other expenses:</b>		
Import material claim expenses	(1,430,851)	(1,280,292)
Loss on sales of property, plant and equipment	(626,104)	(41,759)
Prior period price differences	(289,969)	(368,973)
Other	(494,768)	(858,044)
<b>Other expenses</b>	<b>(2,841,692)</b>	<b>(2,549,068)</b>

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**NOTE 39– FINANCIAL EXPENSES**

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Financial income:</b>		
Foreign exchange gains	41,984,215	55,696,227
Finance income from credit sales	19,913,697	30,938,996
Interest income	7,273,358	10,079,046
	<b>69,171,270</b>	<b>96,714,269</b>
<b>Financial expense:</b>		
Foreign exchange losses	(52,869,126)	(62,448,377)
Interest expenses	(20,619,654)	(17,928,006)
Finance charges on credit purchases	(12,796,429)	(23,280,743)
Financial expense related to cash flow hedge reserve	(9,630,622)	(23,929,040)
Other financial expenses	(6,413,928)	(5,543,189)
	<b>(102,329,759)</b>	<b>(133,129,355)</b>
<b>Financial expense - net</b>	<b>(33,158,489)</b>	<b>(36,415,086)</b>

**NOTE 40– NET MONETARY POSITION PROFIT/LOSSES**

None (31 December 2006: None).

**NOTE 41– TAXES ON INCOME**

Corporate Tax Law was amended by the Law No. 5520 dated 13 June 2006. Law No. 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from 1 January 2006. Accordingly, the corporation tax rate for the fiscal year 2007 is 20% (2006: 20%). Corporation tax is payable 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.

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 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

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**NOTE 41– TAXES ON INCOME (Continued)**

Corporations are required to pay advance corporation tax quarterly at the rate of 20% 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 other liabilities to the government.

In accordance with Tax Law No. 5024 "Law Related to Changes in Tax Procedural Law, Income Tax Law and Corporate Tax Law" that was published in the official Gazette on 30 December 2003, effective from 1 January 2004, income and corporate taxpayers will apply inflation adjustments to the statutory financial statements. In accordance with the abovementioned Law's provisions, in order to apply inflation adjustment, the cumulative inflation rate ("WPI") over the last 36 months and 12 months must exceed 100% and 10%, respectively. Inflation adjustment has not been applied as these conditions were not fulfilled in the years 2005 and 2006.

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

Tax returns are open for five 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.

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

There are many exemptions in Corporate Tax Law regarding corporations. Those related to the Company are explained below:

Dividend gains from shares in capital of another corporation subject to resident taxpaying (except dividends from investment funds participation certificates and investment trusts shares) are exempt from corporate tax.

The investment allowance, which has been applied for many years and calculated as 40% of fixed asset acquisitions exceeding a certain amount, was annulled with the Law No. 5479 dated 30 March 2006. However, in accordance with the temporary Law No. 69 added to the Income Tax Law, corporate and income taxpayers can offset the investment allowance amounts present as of 31 December 2005, which they could not offset against income in 2005 and:

- (a) investments to be made after 1 January 2006 in the scope of the certificate regarding the investments that began in the scope of additional articles 1, 2, 3, 4, 5 and 6 of Income Tax Law No: 193 before it was repealed with the Law No. 4842 dated 9 April 2003, and
- (b) investment allowance amounts to be calculated in accordance with legislation effective at 31 December 2005 related to investments which exhibit a technical and economic and integrity and which were started prior to 1 January 2006 in the scope of Income Tax Law repealed 19th article, only against the income related to the years 2006, 2007 and 2008, in accordance with the legislation at 31 December 2005 (including provisions related to tax rates).

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**NOTE 41- TAXES ON INCOME (Continued)**

The Company reviewed 2006, 2007 and 2008 profit estimations, and decided to use the investment allowance subject to an allowance withholding of 19.8%, in the calculation of corporate tax related to these years.

The tax withholding rate on the dividends which holding companies resident in Turkey transfer from the earnings of resident full-payers fulfilling the conditions for "foreign equity sales earnings exemption and the equity earnings obtained from these foreign equities, and fulfilling the conditions stated in the foreign equity earning exemption, to entities holding the status of joint stock and limited companies (shareholders) located abroad (non-resident) cannot exceed 7.5%.

Accordingly, earnings of the abovementioned nature, which are in the trade profit/loss figures, have been taken into account in calculation of corporate tax.

The taxation on income for the years ended 31 December 2007 and 2006 is summarised as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Current year corporate tax	119,500,848	100,661,663
Deferred tax expense (Note 14)	53,148,741	19,694,786
<b>Total taxation on income</b>	<b>172,649,589</b>	<b>120,356,449</b>

Calculation of the tax expense reconciliation using the current year tax expense in the income statement for the year 2007 and current tax ratio based on income before tax is as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Income before tax :</b>	<b>659,891,710</b>	<b>621,206,799</b>
Current year tax expense calculated taking into account the investment allowance withholding tax of 19,8%	130,658,559	122,998,946
Unused investment allowance during the year (Note 14)	54,519,310	63,074,621
Tax exemptions	(4,788,718)	(13,756,367)
Effective tax rate differences applied for temporary differences	(2,306,415)	(54,797,366)
Other	(5,433,147)	2,836,615
<b>Total taxation on income</b>	<b>172,649,589</b>	<b>120,356,449</b>



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**NOTE 42– EARNINGS PER SHARE**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Net income for the year (YTL)	484,242,121	500,850,350
Weighted average number of shares with face value of YKr 1 each	35,091,000,000	35,091,000,000
<b>Earnings per share with face value of YKr 1 each</b>	<b>YKr 1.38</b>	<b>YKr 1.43</b>

**NOTE 43 - STATEMENT OF CASH FLOWS**

The details of the changes in asset and liability balances that exist in the statements of cash flow for the year ended 31 December 2007 and 2006 is as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
(Increase)/decrease in trade receivables	(135,981,067)	45,623,308
Decrease/(increase) in receivables from related parties	49,592,611	(111,241,178)
Increase in inventories	(381,611)	(47,061,937)
Decrease/(increase) in other current assets	8,815,405	(58,512,730)
Increase in other non-current assets	(28,903)	(1,894)
Increase in trade payables	58,424,098	88,114,745
Increase/(decrease) in due to related parties	5,071,246	(53,495,424)
Increase/(decrease) in other current liabilities	37,276,536	(6,927,735)
<b>Net change in assets and liabilities</b>	<b>22,788,315</b>	<b>(143,502,845)</b>

**NOTE 44 - DISCLOSURE OF OTHER MATTERS**

These financial statements are prepared and presented in accordance with the accounting and reporting principles issued by the CMB, which are different from the accounting principles generally accepted in the countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards. The effects of such differences have not been quantified. Accordingly, these financial statements are not intended to present the financial position, results of operations and changes in the financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.