

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of  
Tofaş Türk Otomobil Fabrikası Anonim Şirketi:

We have audited the accompanying consolidated balance sheet of Tofaş Türk Otomobil Fabrikası Anonim Şirketi (a Turkish corporation – the Group) as of December 31, 2004 and related consolidated income, changes in equity and cash flow statements for the year then ended, all expressed in New Turkish Lira (YTL) converted from the equivalent purchasing power of Turkish Lira as of December 31, 2004. These consolidated financial statements are responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, present fairly, in all material respects, the financial position of Tofaş Türk Otomobil Fabrikası Anonim Şirketi as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

As disclosed in Notes 1 and 21 to the accompanying consolidated financial statements, major portion of the Group's sales are conducted through its related parties.

*ERNST & YOUNG*

March 17, 2005  
İstanbul, Turkey

# TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

## CONSOLIDATED BALANCE SHEET

As of December 31, 2004

(Currency -- Thousands of YTL in equivalent purchasing power at December 31, 2004, unless otherwise indicated)

	Notes	2004	2003
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	279,409	298,237
Trade receivables, net – third parties	5	127,628	151,365
– related parties	21	294,121	287,768
Investment securities	4	-	38,361
Short-term consumer financing loans	6	547	1,347
Inventories, net	7	177,399	151,568
Other current assets	8	15,803	1,595
<b>Total current assets</b>		<b>894,907</b>	<b>930,241</b>
<b>Non-current assets</b>			
Long-term consumer financing loans	6	41	13
Available for sale financial assets	9	11,735	11,735
Property, plant and equipment, net	10	562,173	674,946
Intangibles, net	11	35,924	51,368
Other non-current assets		57	74
Deferred tax asset	18	159,910	151,526
<b>Total non-current assets</b>		<b>769,840</b>	<b>889,662</b>
<b>Total assets</b>		<b>1,664,747</b>	<b>1,819,903</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term bank borrowings, including current portion of long-term bank borrowings	13	72,541	97,121
Trade payables – third parties	14	109,657	136,019
– related parties	21	274,672	380,267
Taxes payable		24,096	20,759
Warranty provision	15	44,247	24,387
Accruals and other current liabilities	16	26,732	34,089
<b>Total current liabilities</b>		<b>551,945</b>	<b>692,642</b>
<b>Non-current liabilities</b>			
Long-term bank borrowings	13	186,490	260,704
Reserve for employment termination benefits	17	38,457	33,492
Other non-current liabilities		-	39
<b>Total non-current liabilities</b>		<b>224,947</b>	<b>294,235</b>
<b>Shareholders' equity</b>			
Issued share capital	19	798,382	798,382
Cumulative gain on the hedging	13	39,095	17,963
Legal reserves and accumulated profits	20	50,378	16,681
<b>Total shareholders' equity</b>		<b>887,855</b>	<b>833,026</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,664,747</b>	<b>1,819,903</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

## TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2004

(Currency – Thousands of YTL in equivalent purchasing power at December 31, 2004, unless otherwise indicated)

	Notes	2004	2003
Net sales	21	2,622,946	2,358,430
Cost of sales		(2,356,907)	(2,138,299)
<b>Gross Profit</b>		<b>266,039</b>	<b>220,131</b>
Selling and marketing expenses	23	(167,144)	(123,028)
General and administrative expenses	24	(88,169)	(82,353)
Research and development expenses	25	(13,699)	(13,863)
Other operating income, net	26	30,203	31,442
<b>Income From Operations</b>		<b>27,230</b>	<b>32,329</b>
Financial expense, net	29	(19,786)	(32,751)
<b>Loss Before Provision for Taxes and Monetary Gain</b>		<b>7,444</b>	<b>(422)</b>
Monetary gain		20,299	10,919
<b>Net Income Before Provision for Taxes</b>		<b>27,743</b>	<b>10,497</b>
Provision for taxes			
- Current	18	(15,416)	(13,320)
- Deferred	18	21,370	10,034
<b>Net Income</b>		<b>33,697</b>	<b>7,211</b>
Weighted average number (000's) of shares of TL 5,000 each		90,000,000	90,000,000
Earnings per share-in full TL		374	80

## TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2004

(Currency – Thousands of YTL in equivalent purchasing power at December 31, 2004, unless otherwise indicated)

	Issued share capital	Cumulative (loss) / gain on the hedging	Legal reserves and accumulated profits	Total
Balance at January 1, 2003	798,382	(31,845)	9,470	776,007
Gain on the hedging	-	49,808	-	49,808
Net income for the year	-	-	7,211	7,211
<b>Balance at December 31, 2003</b>	<b>798,382</b>	<b>17,963</b>	<b>16,681</b>	<b>833,026</b>
Gain on the hedging	-	21,132	-	21,132
Net income for the year	-	-	33,697	33,697
<b>Balance at December 31, 2004</b>	<b>798,382</b>	<b>39,095</b>	<b>50,378</b>	<b>887,855</b>

# TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2004

(Currency – Thousands of YTL in equivalent purchasing power at December 31, 2004, unless otherwise indicated)

	2004	2003
<b>Cash flows from operating activities</b>		
Net loss before monetary gain and provision for taxes	7,444	(422)
Adjustments for-		
Depreciation and amortization	168,817	179,079
Provision for employment termination benefits	9,516	5,656
Decrease in deferred income	-	(3,036)
Interest income	(73,313)	(54,473)
Interest expense	37,820	40,442
Warranty provision	38,911	25,870
Gain on sale of property, plant and equipment	(7,019)	(79)
<b>Operating income before working capital changes</b>	<b>182,176</b>	<b>193,037</b>
<b>Net working capital changes in-</b>		
Trade receivables	(39,636)	(43,698)
Other current assets	(15,093)	21,845
Inventories	(25,831)	(43,650)
Consumer financing loans	636	28,242
Other non-current assets	8	1,345
Trade payables	(72,678)	72,257
Accruals and other current liabilities	(3,378)	4,814
Taxes and withholding payable	(9,954)	2,718
Other non-current liabilities	33	(189)
Employment termination benefits paid	(4,198)	(2,845)
Warranty payments	(14,999)	(11,547)
<b>Net cash (used in) / provided by operating activities</b>	<b>(2,914)</b>	<b>222,329</b>
<b>Cash flows from investing activities</b>		
Investment securities	32,165	(19,970)
Dividends received	2,008	-
Purchase of property, plant, equipment and intangibles	(43,950)	(27,652)
Proceeds from sale of property, plant and equipment	10,369	1,633
<b>Net cash provided by / (used in) investing activities</b>	<b>592</b>	<b>(45,989)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(39,651)	(44,797)
Interest received	75,361	52,131
Net change in bank borrowings	(38,269)	(63,654)
<b>Net cash used in financing activities</b>	<b>(2,559)</b>	<b>(56,320)</b>
Monetary loss on cash and cash equivalents	(13,947)	(6,155)
Net change in cash and cash equivalents	(18,828)	113,865
Cash and cash equivalents at the beginning of the year	298,237	184,372
<b>Cash and cash equivalents at the end of the year</b>	<b>279,409</b>	<b>298,237</b>

# TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

(Currency – Thousands of YTL in equivalent purchasing power at December 31, 2004, unless otherwise indicated)

### 1. CORPORATE INFORMATION

Tofaş Türk Otomobil Fabrikası A.Ş. (a Turkish corporation, the Company – Tofaş) was established in 1968 as a Turkish-Italian cooperation venture to manufacture passenger cars and light commercial vehicles at its plant near Bursa under licenses from Fiat Auto S.p.A. (Fiat). The Company, which is a member of Koç Holding A.Ş. and Fiat Group, also produces various automotive spare parts used in its automobiles. The Company's main office is located in Büyükdere Cad. No:145 Kat:4, 5 Zincirlikuyu Şişli, Istanbul. The manufacturing facilities are located in Bursa.

The Company has been registered with the Turkish Capital Market Board (CMB) and quoted on the İstanbul Stock Exchange (ISE) since 1991.

The Company manufactures its cars pursuant to license agreements between the Company and Fiat. These license agreements prohibit the Company from assembling, producing, importing or selling any car other than Fiat cars. Furthermore, in 2000, the Company has signed a manufacturing agreement with Fiat for the production of Doblo model light commercial vehicles in Turkey.

The Company conducts a significant portion of its business with corporations, which are affiliates of Koç Holding A.Ş. or Fiat (see Note 21).

For the purpose of the consolidated financial statements, the Company and its consolidated Subsidiary Koç Fiat Kredi Tüketici Finansman A.Ş. (a Turkish corporation, the subsidiary - KFK) are referred to as "the Group". The main activity of KFK is to provide consumer finance services to the customers purchasing vehicles produced or imported by the Company.

The consolidated financial statements were authorized for issue on March 17, 2005 by the management of the Company. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared based on the historical cost convention.

The Company and its subsidiary maintains their books of account and prepare their statutory financial statements individually in accordance with the regulations on accounting and reporting framework and accounting standards promulgated by the Turkish Capital Market Board (CMB), Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The consolidated financial statements are based on the individually kept statutory records, with adjustments mainly related to the restatement for changes in the general purchasing power of the Turkish Lira, accounting for deferred taxation, employee termination benefits and cash flow hedges, and reclassifications for the purpose of fair presentation in accordance with IFRS. Effective from 2003 year-end, the Group is filing its consolidated IFRS financial statements with the CMB and ISE.

# TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004

(Currency – Thousands of YTL in equivalent purchasing power at December 31, 2004, unless otherwise indicated)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Measurement Currency and Reporting Currency

As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted in January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL), the new currency unit for the Republic of Turkey. Conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 through out the period until complete phase-out of TL. Accordingly, the Company's presentation currency as of December 31, 2004 is YTL and comparative figures for the prior year have also been presented in YTL, using the conversion rate of TL 1,000,000 = YTL 1,00.

The restatement for the changes in the general purchasing power of TL as of December 31, 2004 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. Such index and conversion factors as of the end of the three year period ended December 31, 2004 are given below:

Dates	Index	Conversion Factors
December 31, 2002	6,478.8	1.297
December 31, 2003	7,382.1	1.138
December 31, 2004	8,403.8	1.000

The main guidelines for the above mentioned restatement are as follows:

- The consolidated financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2004.
- Monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2004 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- The inflation adjusted issued share capital was derived by indexing cash contributions, transfers from statutory retained earnings and income from sale of investments and property, transferred to issued share capital from the date they were contributed.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity (except for the statutory revaluation adjustment which is eliminated) are restated by applying the relevant conversion factors.
- The effect of general inflation on the net monetary position is included in the income statement as monetary gain / (loss).
- All items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortisation, gain or loss on disposal of non-monetary assets.