

İzocam Ticaret ve Sanayi
Anonim Şirketi
Convenience Translation into
English of Financial
Statements as of and for the
Year Ended 31 December
2007 with Independent
Auditor's Report

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali
Müşavirlik Anonim Şirketi
This report is 43 pages.
28 February 2008

Independent Auditors' Report

To the Board of Directors of İzocam Ticaret ve Sanayi Anonim Şirketi

We have audited the accompanying financial statements of İzocam Ticaret ve Sanayi Anonim Şirketi ("the Company"), 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

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

Auditors' Responsibility

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 promulgated by Capital Market Board of Turkey. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The corresponding figures presented are based on financial statements of the Company as at and for the year ended 31 December 2006, which were audited by another auditor whose report dated 22 February 2007, expressed an unqualified opinion on those statements

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles 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 opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards of Capital Market Board of Turkey (please refer to Note 2).

Additional paragraph for convenience translation to English

As explained in Note 2.1, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey and IFRS.

İstanbul, 28 February 2008

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Ruşen Fikret Selamet, Partner
İstanbul, Türkiye

İzocam Ticaret ve Sanayi Anonim Şirketi

Notes to the Financial Statements as of 31 December 2007

Amounts expressed in New Turkish Lira ("YTL") unless otherwise stated. Other currency other than YTL is expressed in full unless otherwise stated

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İzocam Ticaret ve Sanayi Anonim Şirketi

Balance Sheet as at 31 December 2007

Amounts expressed in YTL unless otherwise stated.

	<u>Note</u>	<u>Audited Current Period 31 December 2007</u>	<u>Audited Prior Period 31 December 2006</u>
ASSETS			
Current Assets		119,971,097	134,649,804
Cash and Cash Equivalents	4	34,578,198	55,752,338
Marketable Securities (net)	5	--	--
Accounts Receivable (net)	7	63,755,545	52,631,019
Finance Lease Receivables (net)	8	--	--
Due from Related Parties (net)	9	117,274	516,351
Other Receivables (net)	10	12,310	13,194
Biological Assets (net)	11	--	--
Inventory (net)	12	21,161,107	23,070,256
Due from Customers for Contract Work (net)	13	--	--
Deferred Tax Assets	14	--	--
Other Current Assets	15	346,663	2,666,646
Non-Current Assets		76,249,141	69,581,936
Accounts Receivable (net)	7	2,804	2,804
Finance Lease Receivables (net)	8	--	--
Due from Related Parties (net)	9	--	--
Other Receivables (net)	10	--	--
Investments (net)	16	--	--
Goodwill/Badwill	17	--	--
Investment Property (net)	18	--	--
Property, Plant and Equipment (net)	19	76,189,969	69,459,426
Intangible Assets (net)	20	56,368	119,706
Deferred Tax Assets	14	--	--
Other Non-Current Assets	15	--	--
Total Assets		196,220,238	204,231,740

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

İzocam Ticaret ve Sanayi Anonim Şirketi

Balance Sheet as at 31 December 2007

Amounts expressed in YTL unless otherwise stated.

	<u>Note</u>	Audited Current Period 31 December 2007	Audited Prior Period 31 December 2006
LIABILITIES			
Short-Term Liabilities			
		24,045,278	23,634,626
Bank Borrowings (net)	6	--	--
Short-Term Portion of Long-Term Bank Borrowings (net)	6	3,005,078	--
Finance Lease Payables (net)	8	--	--
Other Financial Liabilities (net)	10	1,509,133	1,333,564
Accounts Payable (net)	7	15,303,655	18,787,522
Due to Related Parties (net)	9	478,606	380,971
Advances Received	21	--	--
Due to Customers for Contract Work (net)	13	--	--
Reserve For Liabilities	23	3,742,114	2,675,524
Deferred Tax Liabilities	14	--	--
Other Liabilities (net)	15	6,692	457,045
Long-Term Liabilities			
		6,392,922	21,506,236
Bank Borrowings (net)	6	--	15,330,095
Finance Lease Payables (net)	8	--	--
Other Financial Liabilities (net)	10	--	--
Accounts Payable (net)	7	--	--
Due to Related Parties (net)	9	--	--
Advances Received	21	--	--
Reserve For Liabilities	23	3,795,931	3,683,944
Deferred Tax Liabilities	14	2,596,991	2,492,197
Other Liabilities (net)	15	--	--
MINORITY INTEREST			
	24		
EQUITY			
		165,782,038	159,090,878
Paid-in Capital	25	24,534,143	24,534,143
Treasury Stock		--	--
Capital Reserves	26	48,226,041	48,226,041
Share Premium		1,092	1,092
Share Certificates Cancellation Income		--	--
Revaluation Reserve		--	--
Fair Value Reserve		--	--
Inflation Adjustments on Equity Items		48,224,949	48,224,949
Profit Reserves	26, 27	41,120,698	25,133,995
Legal Reserves		12,329,123	6,404,304
Status Reserves		--	--
Extraordinary Reserves		28,791,529	18,729,645
Special Reserves		46	46
Gain on sales of investments and property to be transferred to share capital		--	--
Translation Reserve		--	--
Net Profit for the Period		51,691,160	60,986,703
Retained Earnings/Accumulated Losses	28	209,996	209,996
Total Equity and Liabilities		196,220,238	204,231,740

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

İzocam Ticaret ve Sanayi Anonim Şirketi
Income Statement for the year Ended 31 December 2007
Amounts expressed in YTL unless otherwise stated

	<u>Note</u>	<u>Audited Current Period 31 December 2007</u>	<u>Audited Prior Period 31 December 2006</u>
OPERATING INCOME			
Net Sales	36	253,090,630	229,935,706
Cost of Sales	36	(157,272,781)	(152,569,473)
Service Income	36	--	--
Other Operating Income (net)	36	--	--
GROSS PROFIT		95,817,849	77,366,233
Operating Expenses	37	(31,660,135)	(33,621,091)
NET OPERATING INCOME		64,157,714	43,745,142
Income from Other Operations	38	1,417,421	24,881,561
Loss from Other Operations (-)	38	(5,306,004)	(2,466,399)
Finance Income/Costs	39	4,656,774	2,857,478
OPERATING PROFIT		64,925,905	69,017,782
Monetary Gain/Loss	40	--	--
MINORITY INTEREST	24	--	--
PROFIT BEFORE TAX		64,925,905	69,017,782
Taxation Charge	41	(13,234,745)	(8,031,079)
NET PROFIT FOR THE PERIOD		51,691,160	60,986,703
EARNINGS PER SHARE New Kuruş ("Ykr")	42	0.02107	0.02486

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

İzocam Ticaret ve Sanayi Anonim Şirketi

Statement of Changes in Equity for the Year Ended 31 December 2007

Amounts expressed in YTL unless otherwise stated.

	<u>Paid-in Capital</u>	<u>Share Premium</u>	<u>Inflation Adjustments on Equity Items</u>	<u>Fair Value Reserve</u>	<u>Legal Reserves</u>	<u>Extraordinary Reserves</u>	<u>Special Reserves</u>	<u>Net Profit for the Period</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balances as of 1 January 2006	24,534,143	1,092	48,224,949	19,371,709	4,311,006	11,580,808	46	20,282,500	209,996	128,516,249
Change in fair values, net	--	--	--	(19,371,709)	--	--	--	--	--	(19,371,709)
Transfer to reserves	--	--	--	--	2,093,298	18,189,202	--	(20,282,500)	--	--
Dividend paid	--	--	--	--	--	(11,040,365)	--	--	--	(11,040,365)
Net profit for the period	--	--	--	--	--	--	--	60,986,703	--	60,986,703
Balances as of 31 December 2006	24,534,143	1,092	48,224,949	--	6,404,304	18,729,645	46	60,986,703	209,996	159,090,878
Transfer to reserves	--	--	--	--	5,924,819	22,074,567	--	(27,999,386)	--	--
Dividend paid	--	--	--	--	--	(12,012,683)	--	(32,987,317)	--	(45,000,000)
Net profit for the period	--	--	--	--	--	--	--	51,691,161	--	51,691,160
Balances as of 31 December 2007	24,534,143	1,092	48,224,949	--	12,329,123	28,791,529	46	51,691,161	209,996	165,782,038

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

İzocam Ticaret ve Sanayi Anonim Şirketi
Statement of Cash Flows for the Year Ended 31 December 2007
Amounts expressed in YTL unless otherwise stated.

	Note	Audited Current Period 31 December 2007	Audited Prior Period 31 December 2006
Cash flows from operating activities			
Profit before tax		64,925,905	69,017,782
Adjustments:			
Gain on sale of financial asset	38	--	(23,024,165)
Depreciation and amortization	19, 20	11,179,385	8,631,616
Increase in provision for employee severance indemnity	23	193,684	1,292,205
Decrease in provision for vacation pay		253,367	(212,505)
Interest income		(7,540,987)	(5,507,668)
Interest expense	39	647,691	2,187,656
Impairment losses on tangible assets	38	2,953,015	--
(Gain)/loss on sale of tangible assets, net	38	80,895	(640,337)
Allowance for /(reversal of) doubtful receivables	7,38	(34,609)	216,702
Other provision expense		(243,086)	183,451
Net cash before changes in assets and liabilities		72,415,260	52,144,737
Increase in accounts receivable	7	(11,503,506)	(15,912,590)
Decrease in due from related parties	9	399,077	7,238,768
Decrease/(increase) in other receivables	10	884	(2,217,776)
Decrease/(increase) in inventory	12	1,909,149	(6,898,879)
Increase in other current assets	15	2,319,983	(520,677)
Increase in accounts payable	7	(3,509,413)	3,199,956
Increase/(decrease) in due to related parties	9	97,635	(1,622,266)
Decrease in other liabilities	10, 15, 23	(496,092)	(976,454)
Taxes paid		(11,842,052)	(9,512,937)
Interest paid		(690,682)	--
Employee severance indemnity paid	23	(335,064)	(1,657,281)
Cash flows provided by operating activities		48,765,179	23,264,601
Investing activities			
Additions to tangible and intangible assets	19	(20,990,905)	(23,351,201)
Proceeds from sale of tangible and intangible assets	19	106,215	--
Proceeds from sale of financial assets		--	40,133,965
Cash flow used in investing activities		(20,884,690)	16,782,763
Financing activities			
Increase in bank borrowings and other financial liabilities		(12,034,751)	7,416,750
Dividend paid	9,27	(44,974,454)	(11,040,365)
Interest received, net		8,156,855	3,168,485
Cash flows used in financing activities		(48,852,350)	(455,130)
Net increase/(decrease) in cash and cash equivalents		(20,971,861)	39,592,234
Cash and cash equivalent at the beginning of the period	4	55,499,042	15,906,808
Cash and cash equivalent at the end of the period	4	34,527,181	55,499,042

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

İzocam Ticaret ve Sanayi Anonim Şirketi

Notes to the Financial Statements for the Year Ended 31 December 2007

Amounts expressed in New Turkish Lira (“YTL”) unless otherwise stated. Other currency other than YTL is expressed in full unless otherwise stated

1 ORGANIZATION AND NATURE OF THE BUSINESS

İzocam Ticaret ve Sanayi Anonim Şirketi (“İzocam” or the “Company”) was established in 1965 and operates in production and sales of organic and inorganic insulation equipments (glass wool and stone wool, mineral wool and expanded and extruded polystyrenes, elastomeric rubber, polyethylene, insulated and noninsulated roof and front panels, partition and mezzanine).

Koç Holding Anonim Şirketi (“Koç Holding”), Semahat S. Arsel, Suna Kırış, Rahmi M. Koç, Mustafa V.Koç, M. Ömer Koç, Y.Ali Koç, Temel Ticaret ve Yatırım Anonim Şirketi (“Temel Ticaret”), Koç Yapı Malzemeleri Ticaret Anonim Şirketi (“Koç Yapı”), Rahmi M. Koç ve Mahdumları Maden, İnşaat, Turizm, Ulaştırma, Yatırım ve Ticaret Anonim Şirketi (“RMK Maden”) (referred to “Sellers” herein and after) and Saint Gobain Isover and Alamana Industries Co. S.A.K. (“Buyers”) signed a share purchase agreement (“Share Purchase Agreement”) on 5 September 2006, in order to transfer of 61.1935% of the shares of İzocam owned by Sellers to the Buyers.

According to the Share Purchase Agreement, 1,314,020,534 shares representing 53.5588% of the İzocam paid-in capital has been transferred and alienated to İzocam İzolasyon Ticaret Anonim Şirketi (“İzocam İzolasyon”) which is established by the Buyers, on the closing date of 29 November 2006.

According to the usufruct agreement signed on 29 November 2006, usufruct right has been set for the 187,309,862 shares representing 7.6347% of İzocam paid-in capital belonging to Koç Yapı ve Temel Ticaret. These shares have been transferred to İzocam İzolasyon on 10 July 2007.

On 13 December 2006, İzocam İzolasyon applied to the Capital Market Board of Turkey (“CMB”) for a call option to takeover 9,520,839.39 units of the Company shares, each with a nominal value of YTL 1 amounting to total nominal value of YTL 9,520,839.39, which represents 38.8065% of İzocam's paid-in capital. The call process ended on 19 February 2007 and by the shares collected through the call, the share of İzocam İzolasyon in İzocam increased to 86.30%. By shares collected from 19 February to 31 December 2007, shares of İzocam İzolasyon in İzocam have reached to 95.07%. İzocam İzolasyon shares representing 95.07% of the paid in capital of İzocam comprised as follows: 1,501,330,396 shares representing 61.1939% of İzocam paid in capital which are not publicly traded and 831,117,304 shares representing 33.8799% of İzocam paid in capital which are publicly traded of Istanbul Stock Exchange (“ISE”).

The Company conducts some of its operations with the related party namely Saint Gobain Group of companies. The Company has several related parties as their customers and suppliers (Note 9). The Company is registered at CMB and its shares are listed in ISE since 15 April 1981. As of 31 December 2007, 38.81% of the shares of İzocam are publicly traded at ISE.

The average number of employees of the Company is 447 in which 195 is comprised of white collar employees and 252 is comprised of blue collar employees.

The address of the registered office of the Company is as follows:

Organize Sanayi Bölgesi
3. Cadde No.4 Yukarıdudullu
34775 Ümraniye İSTANBUL

The address of the head office of the Company is as follows:

Dilovası Mevkii 41499 Gebze/Kocaeli

İzocam Ticaret ve Sanayi Anonim Şirketi

Notes to the Financial Statements for the Year Ended 31 December 2007

Amounts expressed in New Turkish Lira (“YTL”) unless otherwise stated. Other currency other than YTL is expressed in full unless otherwise stated

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Accounting Policies

2.1.1 *Statement of compliance*

İzocam maintains its book of accounts and prepares its statutory financial statements in YTL in accordance with the Turkish Uniform Chart of Accounts, Turkish Commercial Code and Turkish Tax Code.

The accompanying financial statements of the Company have been prepared in accordance with accounting and reporting principles published by 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, and in Communiqué No: XI-27 “Changes to be made to the Communiqué in respect of Accounting Standards in the Capital Markets” it has been stated that applying the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and International Accounting Standards Committee (“IASC”) is accepted as an alternative to conform with the aforementioned CMB Accounting Standards. The Company prepares its financial statements and notes to the financial statements by applying the aforementioned alternative standards.

The Board of Directors of the Company approved the financial statements prepared in accordance with the alternative method on 28 February 2008.

2.1.2 *Basis of presentation*

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 IASB in its financial statements for the accounting periods starting from 1 January 2005. These financial statements and the related notes have been presented in accordance with the financial statements and disclosures as formats required by the CMB with its announcement dated 10 December 2004.

The equity items including paid-in capital, share premium, legal reserves and extraordinary reserves are presented at the balance sheet in accordance with the Turkish Commercial Code and the effects of inflation over those equity items as of 31 December 2004 are reflected in inflation adjustments on equity item’s account as a separate line under equity.

The financial statements are prepared in YTL based on the historical cost basis except for the financial assets and liabilities which are expressed with their fair values.

The difference between the accounting principles promulgated by the Capital Market Board of Turkey, accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and have influence on the accompanying financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

İzocam Ticaret ve Sanayi Anonim Şirketi

Notes to the Financial Statements for the Year Ended 31 December 2007

Amounts expressed in New Turkish Lira (“YTL”) unless otherwise stated. Other currency other than YTL is expressed in full unless otherwise stated

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.1.3 Functional and presentation currency

Financial statements are presented in YTL, which is the Company’s functional currency. All financial information presented in YTL unless otherwise stated. All other currencies other than YTL are stated full unless otherwise stated.

2.1.4 Use of estimates and judgements

The preparation of financial statements in conformity with CMB Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.

2.2 Accounting in Hyperinflationary Economies

As discussed in Note 2.1 Accounting Policies, the Company has ceased applying inflation accounting starting from 1 January 2005 in accordance with the resolution of CMB.

2.3 Comparative Information

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. The Company’s financial statements have been presented comparatively in order to identify the tendency of the Company’s financial position, performance and its cash flows.

Certain comparative amounts if necessary have been reclassified to conform with the current year presentation and material ones are disclosed. As at 31 December 2006, prepaid taxes presented and disclosed under other current assets amounting to YTL 7,215,189 have been offset with corporate taxes provision presented and disclosed under short term expense accruals. For the year ended 31 December 2006, interest income from credit sales amounting to YTL 4,170,383, currency exchange gain amounting to YTL 3,417,717 YTL, interest income on time deposits amounting to YTL 3,370,604 presented and disclosed under income from other operations and currency exchange loss amounting to YTL 4,990,128 presented and disclosed under loss from other operations and guarantee expenses amounting to YTL 423,319 presented and disclosed under Selling and Marketing expenses have been reclassified under financial income/costs. For the year ended 31 December 2006, write-off the bad debt receivables amounting to YTL 1,398,774 presented in the cash flow statements has been reclassified under increase in accounts receivable.

2.4 Offsetting

The Company’s financial assets and liabilities are offset and the net amount is presented in the balance sheet when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

İzocam Ticaret ve Sanayi Anonim Şirketi

Notes to the Financial Statements for the Year Ended 31 December 2007

Amounts expressed in New Turkish Lira (“YTL”) unless otherwise stated. Other currency other than YTL is expressed in full unless otherwise stated

3 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied during the preparation of the financial statements are summarized as follows.

3.1 Revenue

Revenue from the sales of goods and services is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized on an accrual basis when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable.

When the sales arrangement effectively constitutes a financing cost, 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 recognized as interest income on accrual basis (Note 36).

3.2 Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and all other costs incurred in bringing them to existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 12). The cost of inventories is based on the moving monthly average basis.

3.3 Property, plant and equipment

3.3.1 *Tangible assets*

The costs of tangible assets purchased before 1 January 2005 are restated for the effects of inflation current at 31 December 2004 less accumulated depreciation and impairment losses. The costs of tangible assets purchased after 31 December 2004 are carried at cost less accumulated depreciation and impairment losses (Note 19).

3.3.2 *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment together with the repair and maintenance costs can be capitalized. Subsequent cost can be capitalized if it is probable that the future economic benefits will flow to the Company. All other expense items are recognized in the income statement on an accrual basis.

İzocam Ticaret ve Sanayi Anonim Şirketi

Notes to the Financial Statements for the Year Ended 31 December 2007

Amounts expressed in New Turkish Lira (“YTL”) unless otherwise stated. Other currency other than YTL is expressed in full unless otherwise stated

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3.3 Depreciation

Depreciation is recognized on a straight-line basis over the useful lives of the property, plant and equipment from the date of acquisition or assembly. Leasehold improvements are depreciated on a straight-line basis over the lease term.

The expected useful lives of property, plant and equipment are as follows:

Buildings and land improvements	5-50 years
Machinery and equipment	4-25 years
Motor vehicles	4 years
Furniture and fixtures	4-10 years

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

3.3.4 Derecognition

Gains or losses on disposals of property, plant and equipment are included in the relevant income and expense accounts, and the cost and accumulated depreciation of property, plant and equipment has been written off from the relevant accounts as appropriate.

3.4 Intangible Assets

Intangible assets are comprised of acquired software rights. The costs of intangible assets purchased before 1 January 2005 are restated for the effects of inflation current at 31 December 2004 less accumulated amortization and impairment losses. The costs of intangible assets purchased after 31 December 2004 are carried at cost less accumulated amortization and impairment losses. The carrying amount of an intangible asset is reduced to its recoverable amount if there is impairment (Note 20).

3.4.1 Amortization

Intangible assets are amortized on a straight-line basis in the income statement over their estimated useful lives for a period between four and six years from the date of acquisition.

3.5 Impairment of Assets

3.5.1 Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal is recognized in profit or loss

3.5.2 Non-Financial Assets

The carrying amounts of the Company’s non-financial assets, other than deferred tax assets (Note 3.20) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its fair value in use and its value less costs to sell. In assessing value in use, the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount through value in use or sale of that asset. Impairment losses are recognized in profit or loss.

3.5.3 Reversal of Impairment

In respect of receivables, impairment losses are reversed if there is a subsequent increase in the recoverable amount of that receivable and such kind of subsequent increase can be associated with the subsequent events after the impairment loss has been recognized. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss with respect to other assets is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined (for tangibles net of depreciation); if no impairment loss had been recognized.

3.6 Borrowing Costs

Bank borrowings are recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, bank borrowings are measured at amortized cost using the effective interest rate method. The difference between the proceeds net of transaction costs and the amortized cost is recognized in the income statement as finance costs over the period of the bank borrowings. Finance costs arising from bank borrowings, except for the capitalized costs are recognized in the income statement as they are incurred (Note 39). Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. If the necessary operations have been completed in order to make the assets ready for use or sale, the capitalization of finance costs is ceased.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial Instruments

3.7 Non-derivative financial instruments

The Company’s financial assets comprised of cash and cash equivalents, accounts receivable, due from related parties and other receivables, accounts payable, due to related parties and financial liabilities.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Cash and cash equivalents comprise of time and demand deposits, cheques at collection and highly liquid investments with maturity periods of less than three-months and having no conversion risk exposure other than the impact of foreign currency changes. Cash and cash equivalents are stated at cost in the balance sheet (Note 4).

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity.

Financial assets at fair value through profit or loss

The financial instruments with short-term profit making in order to fund the liquidity requirements or take into consideration of changes in interest rates are classified as financial instruments at fair value through profit or loss.

Held to maturity investments are measured at amortized cost using the effective interest methods less any impairment losses. Financial instruments at fair value through profit or loss are measured at fair value.

Available for sale financial assets

Financial instruments that are not held for trading purposes or held to maturity are classified as available-for-sale financial assets. Available-for-sale financial assets are classified as non-current assets if the management has no intention to hold those instruments within twelve months after the reporting date or the management will not use those instruments in order to increase working capital of the Company by ways of sale of those instruments otherwise are classified as current assets. The Company management appropriately classified financial instruments at the acquisition date and regularly reviews the classification of its financial instruments.

The gain or losses arising from the changes in the fair value of the available-for-sale financial assets, till the sale of those assets, except for the impairment losses and foreign currency gains/losses recognized in the income statement are accounted for under equity without associating with the financial result of the period. During the sale of those assets, gains and losses previously accounted for under equity is transferred to income statement. The interest computed with amortized cost over those financial assets accounted for on the balance sheet are accounted for in the income statement.

Others

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the discounted cash flow techniques are used to determine the fair value of the financial instruments, expected cash flows depend on the Company management's best estimates while the discount rate used in the discounted cash flows depends on the current market rates of the similar instruments with the same payments terms and conditions in the market as of the balance sheet date. In the pricing model techniques, the market information current at the balance sheet date are used as a measurement criteria.

3.7.2 Derivative financial instruments

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses.

3.8 Foreign Currency

Transactions in foreign currencies have been translated to YTL 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 exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated to YTL with the exchange rates at the dates on which their fair values are determined.

3.9 Earning per Share

Earnings per share disclosed in the income statement are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related period concerned (Note 42).

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 inflation adjustments on equity items. Such kind of bonus shares are taken into consideration in the computation of earnings per share as issued share certificates. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period 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 each earlier year.

3.10 Subsequent Events

Subsequent events represent the events that occur against or on behalf of the Company between the balance sheet date and the date when balance sheet was authorized for the issue. As of the balance sheet date, if the evidence with respect to the such events or such events have occurred after the balance sheet date and such events require to restate the financial statements, accordingly the Company restates the financial statements appropriately. If such events do not require to restate the financial statements, such events have been disclosed in the related notes.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Provisions, Commitments and Contingencies

A provision is recognized in the accompanying financial statements if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities are reviewed to determine if there is a possibility that the outflow of economic benefits will be required to settle the obligation. Except for the economic benefit outflow possibility is remote such contingent liabilities is disclosed in the notes to the financial statements (Note 31).

If the inflow of economic benefits is probable, contingent assets have been disclosed in the notes to the financial statements. If the inflow of the economic benefit is more than likely to occur, such asset and income statement effect has been recognized in the financial statements at the relevant period that income change effect occurs (Note 31).

3.12 Changes in Accounting Policies, Estimates and Errors

The Company applies the accounting policies consistently to the transactions with the same nature, other events and situations. Material changes in accounting policies or material errors (if any) are corrected, retrospectively; restating the prior period financial statements. Effect of changes in accounting estimates affecting current period (if any) is recognized in the current period; effect of changes in accounting estimates affecting current and future periods is recognized in the current and also in future periods.

3.13 Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Finance lease payments are presented at amortized cost of the minimum lease payments.

Assets leased under agreements that do not transfer substantially all the risks and rewards associated with ownership to the Company, other than the legal title, are classified as operating leases. Lease payments are recognized in the income statement with straight line method through the term of the lease.

3.14 Related Parties

For the purpose of these financial statements and the notes, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/or affiliated with them, associated companies are considered and referred to as related parties (Note 9). Transactions with related parties are priced predominantly on an arms-length basis.

3.15 Segment Reporting

Since the Company is operating in Turkey and has operations only in isolation products, segment reporting has not been presented.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Construction Contracts

None

3.17 Discontinued Operations

None

3.18 Government Grants

Government grants including the non-cash government grants are recognized in the financial statements when there is a reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grants.

Government grants are presented on the financial statements even when they comprise a cash or deduction of liabilities to the government.

3.19 Investment Property

None.

3.20 Income Taxes

Income tax expense comprises current and deferred tax.

Current tax liability includes the tax payable on the taxable income for the period, using tax rates enacted at the reporting date (Note 41).

Deferred tax are recognized using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates based on the laws that have enacted by the reporting date. Temporary differences mainly arise from the timing differences of income and expenses accounted for reporting purposes and taxation purposes and capitalization and depreciation method differences over tangible and intangible assets.

Deferred tax liabilities and assets are recognized in the financial statements from the enacted or substantially enacted tax rates to the extent that the temporary differences in the subsequent periods will be reversed. Deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority and there is a legally enforceable right to set off the amounts, the deferred tax assets and deferred tax liabilities are offset accordingly (Note 14).

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Employee Benefits

According to the enacted laws, the Company is laible to pay lump sum payments to its employees in case of retirement or the termination of the employment contract of the employees except for the rules stated in the labor laws. Such payments are computed according to the severance indemnity ceiling valid as of the balance sheet date. Employee severance indemnity recognized as the present value of the estimated total reserve of the future probable obligation of the Company.

3.22 Defined Benefit Plans

None.

3.23 Agricultural Operations

None.

3.24 Cash Flow Statement

In the cash flow statement, cash flows are classified as operating, investing and financing activities. Cash flows from operating activities represent the Company’s cash flows generated from operating activities. The Company presents the cash flows from operating activities by using the indirect method such as adjusting the accruals for cash inflows and outflows from grossprofit/loss, other non-cash transactions, prior and future transactions or deferrals.

Cash flows from investing activities represent the cash flows used in/provided from investing activities (capital expenditures).

Cash flows from financing activities represents the funds used in and repayment of the funds during the period.

For purposes of the statements of cash flows, cash and cash equivalents include cash in hand, cheques in collection, bank deposits and other cash and cash equivalents less interest income accruals.

3.25 Expenses

Expenses are accounted on accrual basis. Operating expenses are recognized as they incur.

3.26 Financial Expense

Financial expenses are comprised of interest expense for borrowings. All financial costs in income and expense tables are stated with using effective interest rate method.

3.27 Paid-in Capital and Dividends

Ordinary shares are classified as paid-in capital (Note 25). Dividends on ordinary shares are recognized in equity in the period in which they are declared.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.28 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3.28 Trade receivables and payables

Accounts receivable that are originated by the Company by way of providing goods directly to a debtor are carried at amortized cost using the effective interest rate method. Short-term receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputed interest is significant.

The Company provided reserve for all receivables which are under legal follow-up. Exchange rate difference resulted from foreign currency denominated bad and doubtful receivables is included in the bad debt provision and same amount of foreign exchange difference is also accounted as foreign exchange gain.

The fair value of the trade receivables is estimated as the present value of future cash flows, discounted at the market rate of interest. Trade payables are stated at cost net of interest on credit purchases. Trade payables, net of deferred finance cost are measured at amortized cost using the effective interest rate method by taking into consideration the future cash flows of the original invoices recognized in the financial statements.

3.28.2 Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

3.28.3 Others

Other financial instruments assessed as they reflect their fair value because of their short term nature.

3.29 Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

3.29.1 Credit Risk

The ownership of the financial assets brings the risk of not meeting the obligations of the agreement of the counter party. These risks are controlled by credit evaluations and restricting the maximum exposure to a counter party. Credit risk is diversified since there is many counterparties in the customer database.

3.29.2 Market risk

Market risk is the risk that changes in market prices, interest rates and equity prices will affect the Company’s income or the value of its holdings of financial instruments. The Company is subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. The Company manages this risk by means of balancing the interest-earning assets and interest-bearing liabilities as natural precautions. The Company places those interest earning assets at short-term investments.

Currency Risk

The Company is exposed to currency risk due to its import transactions and borrowings in foreign currency. These transactions are held in USD and Euro.

Interest Rate Risk

The Company is exposed to interest rate risk due to effects of changes in the interest rates to the assets and liabilities.

3.29.3 Liquidity Risk

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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

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4 CASH AND CASH EQUIVALENTS

As of 31 December, cash and cash equivalents comprised of the following:

	<u>2007</u>	<u>2006</u>
Banks		
Time deposits	33,231,038	54,785,845
Demand deposit	932,447	965,707
Cheques in collection	412,638	--
Other cash and cash equivalents	2,075	786
	34,578,198	55,752,338

As of 31 December, demand deposits comprised of the following currencies:

	<u>2007</u>	<u>2006</u>
YTL	377,219	564,544
American Dolar ("USD")	311,897	235,424
Euro	243,331	165,739
	932,447	965,707

As of 31 December, time deposits comprised of the following currencies:

	<u>2007</u>	<u>2006</u>
YTL	19,489,792	46,717,835
USD	11,091,422	4,363,184
Euro	2,649,824	3,704,826
	33,231,038	54,785,845

As of 31 December 2007, time deposits were in YTL, USD and Euro and their weighted average interest rates are 16.5%, 5.50% ve 3.9% respectively (31 December 2006: time deposits were in YTL, USD and Euro with weighted average interest rate of 21%, 5%, and 3%, respectively). As of 31 December 2007, time deposits were short-term, maturing less than one month.

For purposes of the statements of cash flows, cash and cash equivalents include cash in hand, bank deposits and short-term investments that are easily convertible to cash with high liquidity and with a maturity of up to three months.

Cash and cash equivalents included in the statement of cash flows as of 31 December are as follows:

	<u>2007</u>	<u>2006</u>
Banks		
Time deposits	33,231,038	54,785,845
Demand deposit	932,447	965,707
Cheques in collection	412,638	--
Other cash and cash equivalents	2,075	786
Less: Interest accruals	(51,017)	(253,296)
	34,527,181	55,499,042

5 MARKETABLE SECURITIES

None (31 December 2006: None).

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6 BANK BORROWINGS

As of 31 December, the details of bank borrowings are as follows:

	Interest rate %		Original currency		YTL	
	2007	2006	2007	2006	2007	2006
Short-term bank borrowings						
Short-term portion of long term borrowings-Euro	Euribor+1.25	--	1,757,150	--	3,005,078	--
Total short-term bank borrowings			1,757,150	--	3,005,078	--
Long-term bank borrowings						
Long-term bank borrowings-Euro		4.98 -5.05	--	8,278,744	--	15,330,095
Total long-term bank borrowings			--	--	--	15,330,095

The Company repaid this borrowing to related bank in January 2008.

7 ACCOUNTS RECEIVABLE AND PAYABLE

7.1 Short-Term Accounts Receivables (net)

	2007	2006
Trade receivable	31,251,120	26,496,177
Note receivable	23,628,050	18,562,500
Cheques receivable	8,876,375	7,545,409
Bad and doubtful receivables	711,342	783,384
Less: Allowance for bad and doubtful receivables	(711,342)	(756,451)
	63,755,545	52,631,019

As of 31 December, the movement of allowance for bad and doubtful receivables is as follows;

	2007	2006
Balances at 1 January	756,451	1,938,523
Provision for the year (Note 38)	34,640	216,702
Reversals (Note 38)	(69,249)	--
Write offs	(10,500)	(1,398,774)
	711,342	756,451

7.2 Long-Term Accounts Receivable (net)

	2007	2006
Deposits and guarantees given	2,804	2,804
	2,804	2,804

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7 ACCOUNTS RECEIVABLE AND PAYABLE (CONTINUED)

7.3 Short-Term Accounts Payable

	<u>2007</u>	<u>2006</u>
Trade payable	15,286,545	18,770,252
Deposits and guarantees received	10,081	17,270
Other	7,029	--
	<u>15,303,655</u>	<u>18,787,522</u>

8 FINANCE LEASE RECIVABLE AND PAYABLE

None (31 December 2006: None).

9 RELATED PARTIES

9.1 Due From Related Parties Short-Term

As of 31 December, due from related parties comprised the following:

	<u>2007</u>	<u>2006</u>
Saint-Gobain Isover Romania SRL ("Isover")	91,291	145,939
JSC Saint Gobain Konstruktion Pr ("JSC")	19,247	--
Saint-Gobain Isover	6,736	--
Üçsel İnşaat ve Malzeme Mühendislik Makina Ticaret Limited Şirketi	--	370,412
	<u>117,274</u>	<u>516,351</u>

9.2 Due To Related Parties Short-Term

As of 31 December, due to related parties comprised the following:

	<u>2007</u>	<u>2006</u>
Grunzweig Hartman AG ("Grunzweig")	185,307	--
Saint-Gobain Weber Markem Yapı Kimyasalları Ticaret A.Ş. ("Weber Markem")	131,550	256,754
Isover	118,614	104,339
Other	43,135	19,878
	<u>478,606</u>	<u>380,971</u>

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9.3 Sales to Related Parties

For the years ended 31 December, sales to related parties comprised the following:

	<u>2007</u>	<u>2006</u>
Isover	1,557,038	--
JSC	1,479,620	--
Arçelik Anonim Şirketi	--	14,516,477
Beko Elektronik Anonim Şirketi	--	6,975,541
Koçtaş Yapı Marketleri Anonim Şirketi	--	439,646
Ark İnşaat Sanayi ve Ticaret Anonim Şirketi	--	1,657,813
Other	--	792,234
	<u>3,036,658</u>	<u>24,381,711</u>

9.4 Purchases from Related Parties

For the years ended 31 December, purchases from related parties comprised the following:

	<u>2007</u>	<u>2006</u>
Weber Markem	1,271,599	--
Saint Gobain Isover France	934,780	--
Grunzweig	510,898	--
Koç Statoil Gaz Toptan Satış Anonim Şirketi (a)	--	3,134,565
Entek Elektrik Üretimi Otoprodüktör Grubu Anonim Şirketi (a)	--	2,861,446
Akpa Dayanımlı Tüketim LPG Akaryakıt Ürünleri Pazarlama Anonim Şirketi (a)	--	1,475,633
Beko Ticaret Anonim Şirketi (a)	--	1,699,724
Ram Sigorta ve Aracılık Hizmetleri Anonim Şirketi	--	809,204
Setur Servis Turistik Anonim Şirketi (a)	--	718,668
Palmira Turizm Ticaret Anonim Şirketi (a)	--	698,739
Aygaz Anonim Şirketi (a)	--	572,405
Otokoç Anonim Şirketi (a)	--	437,333
Opet Petrolcülük Anonim Şirketi (a)	--	409,402
Koç Net Haberleşme Teknolojileri ve İletişim Hizmetleri Anonim Şirketi (a)	--	177,629
Koç Sistem Bilgi ve İletişim Hizmetleri Anonim Şirketi (a)	--	90,703
Ford Otomotiv Sanayi Anonim Şirketi (a)	--	110,165
Other (a)	--	570,910
	<u>2,717,277</u>	<u>13,766,526</u>

(a) Above disclosed purchases from Koç Group Companies are not represented comparatively for the twelve-month period ended 31 December 2007. After the finalisation of share purchase agreement as of 29 November 2006, Koç Group Companies are excluded from the scope of the related party.

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9.5 Other Transactions with Related Parties

As of 31 December, other transactions with related parties comprised the following:

	<u>2007</u>	<u>2006</u>
Dividends paid		
İzocam İzolasyon	27,519,394	--
Merkezi Kayıt Kuruluşu (“MKK”)	17,434,230	--
Other	20,830	--
	<u>44,974,454</u>	<u>--</u>

9.6 Remuneration to Top Management

Remuneration paid to top management by the Company for the year ended at 31 December 2007 is YTL 1,714,285 (31 December 2006: YTL 3,167,061).

10 OTHER RECEIVABLES AND FINANCIAL LIABILITIES

10.1 Other Short-Term Receivables (net)

As of 31 December, other short-term receivables comprised the following:

	<u>2007</u>	<u>2006</u>
Job advances	6,241	13,011
Receivables from employees	5,869	--
Other	200	183
	<u>12,310</u>	<u>13,194</u>

10.2 Other Financial Liabilities Short-Term

As of 31 December, other short-term financial receivables comprised the following:

	<u>2007</u>	<u>2006</u>
Withholding taxes and duties payables	848,783	633,580
Social security premium payables	440,333	682,359
Value added taxes (“VAT”) payables	211,852	--
Other	8,165	17,625
	<u>1,509,133</u>	<u>1,333,564</u>

11 BIOLOGICAL ASSETS

None (31 December 2006: None).

İzocam Ticaret ve Sanayi Anonim Şirketi

Notes to the Financial Statements for the Year Ended 31 December 2007

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12 INVENTORIES

As of 31 December, inventories comprised the following:

	<u>2007</u>	<u>2006</u>
Raw materials and supplies	14,099,425	15,664,301
Finished goods	5,718,264	5,802,739
Merchandise	902,999	1,198,179
Advances given	440,419	405,037
	<u>21,161,107</u>	<u>23,070,256</u>

13 DUE FROM CUSTOMERS FOR CONTRACT WORK/DUE TO CUSTOMERS FOR CONTRACT WORK

None (31 December 2006: None).

14 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax liabilities and assets are provided, using the balance sheet liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities and assets are recognized in the financial statements from the enacted or substantially enacted tax rates to the extent that the temporary differences in the subsequent periods will be reversed

The Company recognizes deferred tax assets in the financial statements by taking into consideration the factors such as the developments in the sector that the Company is operating, taxable income in the forthcoming years, Turkey's general economic and political situation, and/or global economic and political situations. The Company expects to generate taxable income in the forthcoming periods and considers Turkey's economic and political situation shows clear positive developments.

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in the forthcoming years under the liability method using a principal tax rate of 20% (31 December 2006: 20%).

Deferred tax assets and deferred tax liabilities as of 31 December were attributable to the items detailed in the table below:

	<u>2007</u>		<u>2006</u>	
	<u>Deferred tax</u>		<u>Deferred tax</u>	
	<u>assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Employee severance indemnity	620,223	--	648,499	--
Vacation pay liability	138,963	--	88,290	--
Deferred interest income	96,214	--	13,497	--
Pro-rata basis depreciation expense and capitalization of borrowing costs for tangibles and intangibles	--	(3,225,050)	--	(3,242,483)
Reversal of discount charges in accordance with tax regulations	--	(226,613)	--	--
Other	--	(728)	--	--
	855,400	(3,452,391)	750,286	(3,242,483)
Offsetting	(855,400)	855,400	(750,286)	750,286
		<u>(2,596,991)</u>	--	<u>(2,492,197)</u>

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14 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

The movement of deferred tax liabilities is as follows:

	1 January 2006	Recognized in profit/(loss)	31 December 2006	Recognized in profit/(loss)	31 December 2007
Employee severance indemnity	1,082,271	(433,772)	648,499	(28,276)	620,223
Vacation pay liability	196,186	(107,896)	88,290	50,673	138,963
Deferred interest income	30,234	(16,737)	13,497	82,717	96,214
Pro-rata basis depreciation expense and capitalization of borrowing costs for tangibles and intangibles	(5,377,409)	2,134,926	(3,242,483)	17,433	(3,225,050)
Reversal of discount changes in accordance with tax regulations	--	--	--	(226,613)	(226,613)
Other	--	--	--	(728)	(728)
	(4,068,718)	1,576,521	(2,492,197)	(104,794)	(2,596,991)

15 OTHER CURRENT/NON-CURRENT ASSETS AND SHORT/LONG-TERM LIABILITIES

15.1 Other Current Assets

As of 31 December, other current assets comprised the following:

	2007	2006
VAT for export receivables	171,987	109,635
Taxes and funds to be offset	134,157	157,176
Prepaid expenses	37,731	36,833
VAT receivables	--	2,357,013
Other	2,788	5,989
	346,663	2,666,646

15.2 Other Non-Current Assets

None (31 December 2006: None).

15.3 Other Short-Term Liabilities

	2007	2006
Payable to employees	6,692	457,045
	6,692	457,045

15.4 Other Long-Term Liabilities

None (31 December 2006: None).

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Notes to the Financial Statements for the Year Ended 31 December 2007

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16 INVESTMENTS

None (31 December 2006: None).

17 GOODWILL/BADWILL

None (31 December 2006: None).

18 INVESTMENT PROPERTY

None (31 December 2006: None).

19 PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2007; movement in the property, plant and equipment is as follows:

	<u>1 January</u>				<u>31 December</u>
Cost	2007	Additions	Transfer (*)	Disposal	2007
Land	715,231	--	--	--	715,231
Land improvements	3,615,396	--	908,702	(110,992)	4,413,106
Buildings	28,845,966	--	2,163,189	(244,938)	30,764,217
Machinery and equipment	135,115,998	929,495	39,123,578	(10,125,875)	165,043,196
Vehicles	72,932	--	481	(73,413)	--
Furniture and fixtures	8,577,798	359,930	(418,786)	(1,123,391)	7,395,551
Leasehold improvements	58,176	--	--	(18,706)	39,470
Construction in progress	17,738,186	9,598,519	(25,010,500)	--	2,326,205
Advances given	8,679,726	10,096,658	(18,543,637)	--	232,747
	203,419,409	20,984,602	(1,776,973)	(11,697,315)	210,929,723
		<i>Current</i>			
		<i>period</i>			
		<i>depreciation</i>	<i>Transfer (*)</i>	<i>Disposal</i>	
Less: Accumulated depreciation	1 January				31 December
	2007				2007
Land improvements	(2,101,419)	(161,254)	(722)	65,915	(2,197,480)
Buildings	(15,613,047)	(1,063,727)	(784)	104,821	(16,572,737)
Machinery and equipment	(108,209,901)	(9,623,075)	1,341,404	7,173,207	(109,318,365)
Vehicles	(72,931)	--	(481)	73,412	--
Furniture and fixtures	(7,917,885)	(261,147)	437,556	1,121,131	(6,620,345)
Leasehold improvements	(44,800)	(4,729)		18,702	(30,827)
Total accumulated depreciation	(133,959,983)	(11,113,932)	1,776,973	8,557,188	(134,739,754)
Net carrying value	69,459,426				76,189,969

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19 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the year ended 31 December 2006, movement in the property, plant and equipment is as follows:

Cost	<u>1 January</u>	<u>Additions</u>	<u>Transfer</u>	<u>Disposal</u>	<u>31 December</u>
	<u>2006</u>				<u>2006</u>
Land	715,231	--	--	--	715,231
Land improvements	3,626,204	5,600	75,170	(91,578)	3,615,396
Buildings	30,092,641	23,000	28,229	(1,297,904)	28,845,966
Machinery and equipment	142,694,785	202,123	546,448	(8,327,358)	135,115,998
Vehicles	655,579	111,440	--	(694,087)	72,932
Furniture and fixtures	8,851,022	128,236	12,297	(355,581)	8,635,974
Construction in progress	207,222	7,710,961	9,820,003	--	17,738,186
Advances given	65,986	19,095,887	(10,482,147)	--	8,679,726
	186,908,670	27,277,247	--	(10,766,508)	203,419,409
		<i>Current</i>			
Less: Accumulated depreciation	<u>1 January</u>	<u>Current period depreciation</u>	<u>Transfer</u>	<u>Disposal</u>	<u>31 December</u>
	<u>2006</u>	<u>depreciation</u>			<u>2006</u>
Land improvements	(1,979,897)	(150,037)	--	28,515	(2,101,419)
Buildings	(14,953,682)	(1,078,266)	--	418,901	(15,613,047)
Machinery and equipment	(107,526,653)	(6,890,421)	--	6,207,173	(108,209,901)
Vehicles	(539,922)	(62,176)	--	529,167	(72,931)
Furniture and fixtures	(7,901,410)	(327,103)	--	265,828	(7,962,685)
Total accumulated depreciation	(132,901,564)	(8,508,003)	--	7,449,584	(133,959,983)
Net carrying value	54,007,106				69,459,426

(*) During 2007, the Company has reviewed the property, plant and equipment on a detailed item basis and reclassified the cost and accumulated depreciation appropriately.

For the year ended 31 December 2007 depreciation expenses amounting to YTL 10,515,648 (31 December 2006: YTL 8,095,997) has been included under cost of sales, YTL 397,304 (31 December 2006: YTL 412,006) has been included under general administrative expenses and YTL 200,980 has been capitalized on included under stocks.

20 INTANGIBLE ASSETS

For the year ended 31 December 2007, movement in the intangible assets is as follows:

Cost	<u>1 January</u>	<u>Additions</u>	<u>Transfer (*)</u>	<u>Disposal</u>	<u>31 December</u>
	<u>2007</u>				<u>2007</u>
Rights	916,630	6,303	(230,055)	(81,772)	611,106
	916,630	6,303	(230,055)	(81,772)	611,106
		<i>Current</i>			
Less: Accumulated amortization	<u>1 January</u>	<u>Current period amortization</u>	<u>Transfer (*)</u>	<u>Disposal</u>	<u>31 December</u>
	<u>2007</u>	<u>amortization</u>			<u>2007</u>
Rights	(796,924)	(65,453)	230,055	77,584	(554,738)
Total accumulated amortization	(796,924)	(65,453)	230,055	77,584	(554,738)
Net carrying value	119,706				56,368

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20 INTANGIBLE ASSETS (CONTINUED)

For the year ended 31 December 2006, movement in intangible assets is as follows:

Maliyet	<u>1 Ocak 2006</u>	<u>Girisler</u>	<u>Transfer</u>	<u>Cıkıslar</u>	<u>31 Aralık 2006</u>
Haklar	885,414	31,216	--	--	916,630
	885,414	31,216	--	--	916,630
		<i>Cari dönem</i>			
Eksi: Birikmiş itfa payları	<u>1 Ocak 2006</u>	<u>itfa payı</u>	<u>Transfer</u>	<u>Cıkıslar</u>	<u>31 Aralık 2006</u>
Haklar	(673,311)	(123,613)	--	--	(796,924)
Toplam birikmiş itfa payları	(673,311)	(123,613)	--	--	(796,924)
Net defter değeri	212,103	(92,397)			119,706

(*) During 2007, the Company has reviewed the intangible assets on a detailed item basis and reclassified the cost and accumulated amortization appropriately.

For the year ended 31 December 2007 amortization expenses amounting to YTL 65,453 (31 December 2006: YTL 5,986) has been included under general administrative expenses, for the year ended 31 December 2006 amortization expenses amounting to YTL 117,627 has been included under cost of sales.

21 ADVANCES RECEIVED

None (31 December 2006: None).

22 DEFINED BENEFIT PLAN

Except for the provision for employee severance indemnity explained in Note 23, there is no defined benefit plan.

23 EXPENSE ACCRUALS

23.1 Short-Term Expense Accruals

As of 31 December, short-term expense accruals comprised the following:

	<u>2007</u>	<u>2006</u>
Corporate taxes provision (Note 41)	13,129,951	9,607,600
Prepaid taxes	(9,449,641)	(7,215,189)
Other expense accruals	61,804	283,113
	3,742,114	2,675,524

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23.2 Long-Term Expense Accruals

As of 31 December long-term expense accruals comprised the following:

	<u>2007</u>	<u>2006</u>
Provision for employee severance indemnity	3,101,115	3,242,495
Vacation pay liability	694,816	441,449
	<u>3,795,931</u>	<u>3,683,944</u>

Provision for employee severance indemnity has been set as follows:

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 YTL 2.030,19 for each year of service as of 31 December 2007 (31 December 2006: YTL 1,857.44).

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.

The Company's accounting policies requires the Company to use various statistical methods to determine the employee severance indemnity. The reserve has been calculated by estimating the present value of future probable obligation of the the Company arising from the retirement of the employees and reflected in the financial statements. Accordingly, the following statistical assumptions were used in the calculation of the total liability:

	<u>2007</u>	<u>2006</u>
Discount rate	% 5,71	% 5,71
Turnover rate to estimate the probability of retirement	%10	% 2

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. Company calculates reserve for employment termination benefits amount of YTL 2,030.19 which is effective from 1 January 2007 (2006: YTL 1,857.44).

The movement of employee severance indemnity is as follows:

	<u>2007</u>	<u>2006</u>
Balance at the beginning of the period	3,242,495	3,607,571
Provision for the period/year	193,684	1,292,205
Payments	(335,064)	(1,657,281)
Balance at the end of the period	<u>3,101,115</u>	<u>3,242,495</u>

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24 MINORITY INTEREST

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

25 PAID-IN CAPITAL/TREASURY STOCK

As of 31 December 2007, the paid-in capital of the Company comprises 2,453,414,335 shares issued (31 December 2006: 2,453,414,335 shares of Ykr 1 each) of Ykr 1 each. There are no privileges given to different groups or shareholders.

The shareholder structure of the Company is as follows:

	2007		2006	
	Shares	Ownership rate%	Shares	Ownership rate%
İzocam İzolasyon	15,013,304	61.19	13,140,205	53.56
İzocam İzolasyon (Publicly traded)	8,311,173	33.88		
Koç Yapı (*)	--	--	647,899	2.64
Temel Ticaret (*)	--	--	1,225,200	4.99
Other	1,209,666	4.93	9,520,839	38.81
	24,534,143	100.00	24,534,143	100.00
Adjustment to share capital	25,856,460		25,856,460	
	50,390,603		50,390,603	

According to the Share Purchase Agreement, 1,314,020,534 shares representing 53.5588% of the Company's paid-in capital has been transferred and alienated to İzocam İzolasyon Ticaret A.Ş. which is established by the Buyers, on the closing date of 29 November 2006.

(*)According to the usufruct agreement signed on 29 November 2006, usufruct right has been set for the 187,309,862 shares representing 7.6347% of Izocam paid-in capital belonging to Koç Yapı ve Temel Ticaret. These shares have been transferred to İzocam İzolasyon on 10 July 2007.

26 CAPITAL RESERVES

26.1 Inflation Adjustments on Equity Items

As discussed in Note 2, the Company started to prepare its financial statements from the first quarter of 2006 in accordance with the alternative application of CMB and ceased applying IAS 29 in conformity with the decision taken by CMB on 17 March 2005

In accordance with Communiques No: XI-25, during the first time application of inflation accounting, "Paid-in Capital, Share Premiums, Legal Reserves, Status Reserves, Special Reserves and Extraordinary Reserves" of equity items has to be presented with their historic values. Inflation effects on those equity items are presented as "inflation adjustment on equity items" under equity.

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26 CAPITAL RESERVES (CONTINUED)

Equity items are presented at their historic values in the financial statements. The inflation effect on those equity items are as follows:

	Historic cost	Inflation adjustment on equity items	Restated values
31 December 2007			
Paid-in capital	24,534,143	25,856,460	50,390,603
Share premiums	1,092	223,408	224,500
Legal reserves	12,329,123	18,710,928	31,040,051
Extraordinary reserves	28,791,529	(1,496,872)	27,294,657
Special reserves	46	4,931,025	4,931,071
	65,655,933	48,224,949	113,880,882
31 December 2006			
Paid-in capital	24,534,143	25,856,460	50,390,603
Share premiums	1,092	223,408	224,500
Legal reserves	6,404,304	18,710,928	25,115,232
Extraordinary reserves	18,729,645	(1,496,872)	17,232,773
Special reserves	46	4,931,025	4,931,071
	49,669,230	48,224,949	97,894,179

As of 31 December 2007 and 31 December 2006, historical values of extraordinary reserves of the Company in accordance with Tax Laws are YTL 12,551,832 and YTL 24,564,515, respectively.

26.2 Share Premiums

Share premiums represent the cash inflows generated from the sale of shares at their market values. Those premiums are followed under equity and can not be distributed. However, those premiums can be used in share capital increases in the forthcoming periods.

27 PROFIT RESERVES

According to the Turkish Commercial Code, legal reserves comprised of first and legal reserves. The first legal reserves are generated by annual appropriations amounting to 5% of income disclosed in the Company's statutory accounts until it reaches 20% of paid-in share capital. If the dividend distribution is made in accordance with CMB Communiqués 25, a further 1/10 of dividend distributions, in excess of 5% of paid-in capital is to be appropriated to increase second legal reserves. If the dividend distribution is made in accordance with statutory records, a further 1/11 of dividend distributions, in excess of 5% of paid-in capital is to be appropriated to increase second legal reserves. 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. As of 31 December 2007, legal reserves in the financial statements amounted to YTL 12,329,123 (31 December 2006: YTL 6,404,304).

According to the 7/242 numbered decision taken on 25 February 2005 by CMB, the dividend distribution for the quoted companies are amended as follows.

Net distributable profit determined in accordance with the CMB regulations, has to be distributed from the distributable profit of statutory records if it covers the net distributable profit. If there is a loss in the period in one of the financial statements prepared in accordance with CMB regulations or statutory records, no distribution can be made.

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

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27 PROFIT RESERVES (CONTINUED)

amount of deficit from extraordinary reserves, legal reserves and adjustment to share capital, respectively.

Effective from 31 December 2004, the net income computed must be distributed in the ratio of a minimum of 30% of total distributable profit. This distribution, regarding decisions taken by the general assemblies, may be made either as cash, as pro-rata shares or as a combination of both 30% (2006:30%) of distributable profit.

Inflation adjustments on equity items can only be netted-off against prior years’ losses and used as an internal source in capital increase where extraordinary reserves can be netted-off against prior years’ losses, used in distribution of bonus shares and distributions of dividends to shareholders.

In the ordinary general assembly held on 26 March 2007, it has been decided that, YTL 1,547,490 would be transferred to first legal reserves, YTL 4,377,329 would be transferred to second legal reserves from the profit for the year ended 31 December 2006 which amounts to YTL 60,986,703. Remaining YTL 22,074,567 would be transferred to extraordinary reserves. Remaining balances of YTL 32,987,317 and by transferring YTL 12,012,683 from extraordinary reserves, cash dividend amounting to YTL 45,000,000 would be distributed to shareholders from nominal amounts of previous years’ extraordinary reserves. As of 31 December 2007, YTL 44,974,454 of YTL 45,000,000 dividend has been paid and the remaining portion amounting to YTL 25,546 has been credited to due to related parties.

In accordance with the Communiqué No: XI-25, at 31 December 2006, the shareholders’ equity schedule, based on which the dividend were distributed, are as follows:

	31 December 2006
Paid-in capital	24,534,143
Share premiums	1,092
Legal reserves	6,404,304
Extraordinary reserves	18,729,645
Special reserves	46
Inflation adjustment on equity items	48,224,949
Net profit for the period	60,986,703
Retained earnings	209,996
	159,090,878

28 RETAINED EARNINGS/ACCUMULATED LOSSES

	2007	2006
Retained earnings	209,996	209,996
	209,996	209,996

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29 NET FOREIGN CURRENCY POSITION

Foreign currency risk represents the risk that the value of the financial instrument changes according to the changes in the foreign currency exchange rates. USD and Euro are the foreign currencies that can generate foreign currency risk. As of 31 December 2007, the Company's net foreign currency position comprised the following foreign currency based assets and liabilities:

	31 December 2007		
	USD	Euro	Total
Assets			
Cash and cash equivalents	11,403,319	2,893,155	14,296,474
Accounts receivable	8,116,634	2,459,671	10,576,305
	19,519,953	5,352,826	24,872,779
Liabilities			
Accounts payable	(658,354)	(408,295)	(1,066,649)
Bank borrowings-short-term	--	(962,035)	(962,035)
Bank borrowings-long-term	--	(2,043,043)	(2,043,043)
	(658,354)	(3,413,373)	(4,071,727)
	18,861,599	1,939,453	20,801,052

	31 December 2006		
	USD	Euro	Total
Assets			
Cash and cash equivalents	4,598,608	3,870,565	8,469,173
Accounts receivable	9,339,000	3,142,943	12,481,943
	13,937,608	7,013,508	20,951,116
Liabilities			
Accounts payable	(582,441)	(297,028)	(879,469)
Bank borrowings-long-term	--	(15,330,095)	(15,330,095)
	(582,441)	(15,627,123)	(16,209,564)
	13,355,167	(8,613,615)	4,741,552

30 GOVERNMENT GRANTS

As of 31 December 2007, the Company has no investment incentives (31 December 2006: None).

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Notes to the Financial Statements for the Year Ended 31 December 2007

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31 PROVISIONS, COMMITMENTS AND CONTINGENCIES

At 31 December 2007, the Company has letter of guarantee in the amount of YTL 3,059,300 (31 December 2006: YTL 3,108,181), and collaterals from banks in the amount of YTL 457,169 (31 December 2006: YTL 478,718), given to customs offices and domestic/foreign vendors.

As of 31 December 2007, the Company has purchase commitments amounting to YTL 144,025 (Euro 84,215) to various suppliers for the renovation of Gebze and Tarsus facilities and the capital expenditures for Eskişehir facility to be completed during 2007. On 7 January 2008, the related loan has been paid back.

According to the loan agreement between the Company and ABN Amro, the ratio of the Company’s financial debts to income before taxation and financial expense should be below 1.0 and the ratio of financial debts to stockholders’ equity should be below 0.50 at the end of the each fiscal year. On 7 January 2008, the related loan has been paid back.

32 BUSINESS COMBINATIONS

None (31 December 2006: None).

33 SEGMENT REPORTING

None (31 December 2006: None).

34 SUBSEQUENT EVENTS

In accordance with the regulations of CMB effective from 1 January 2008, for the corporations listed on the stock exchange, it is stated that the minimum dividend distribution shall be applied as 20 % of the rate defined in “communiqué on principals regarding distribution of dividend or interim dividend that Publicly Held Joint Stock Companies are Subject to Regarding the Dividend Distributions” Serial: IV No: 27.

- In accordance with the decision taken in the general shareholders’ meeting, this distribution shall be in the form of distributing the shares to be issued to the shareholders free of charge by adding the cash or the dividend to the capital or in the form of distributing a certain amount of cash and a certain amount of shares free of charge,
- In case, the first dividend amount determined in accordance with the first clause of the communiqué is lower than 5 % of the current paid/issued capital, this amount may be added to the capital of the company rather than to be distributed,
- Terms related to the dividend distribution dates defined in the 6th clause of the communiqué serial: IV, No: 27;
 - (i) If the whole dividend will be distributed in cash, the exercise to distribute the dividends till end of the 5th month of the following accounting period shall be continued,
 - (ii) If the dividends will be distributed as shares, application to the CMB shall be filed till end of the 5th month of the following accounting period so long as shares to be issued shall be registered by CMB and share distribution shall be completed till end of the 6th month,
 - (iii) In case the options in sub clauses (i) and (ii) will be applied together, transactions defined in related sub clauses shall be performed separately but in the terms defined in each sub clause,
- In case a decision relating to a proposal of dividend distribution is taken to be submitted to the approval of general shareholders’ meeting by the board of directors of incorporated companies listed

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34 SUBSEQUENT EVENTS (CONTINUED)

on the stock exchange and/or dividend distribution is directly settled in the general shareholders’ meetings of incorporations, in accordance with the “Communiqué on Principals regarding Public Disclosure of Material Events Serial: VIII No: 39” relating to mentioned decisions, these statements shall also be disclosed in the amendment of the disclosure of material events and one copy of the statements shall be submitted to the CMB.

The Company repaid the bank loan from ABN Amro on 7 January 2008.

35 DISCONTINUED OPERATIONS

None.

36 OPERATING INCOME

For the year ended 31 December, operating income comprised the following:

	<u>2007</u>	<u>2006</u>
Domestic sales	216,407,431	195,218,954
Export sales	52,230,916	47,697,714
Other	88,123	83,184
Gross sales	268,726,470	242,999,852
Less: Discounts and sales returns	(15,635,840)	(13,064,146)
Net sales	253,090,630	229,935,706
Less: Cost of sales	(157,272,781)	(152,569,473)
Gross profit	95,817,849	77,366,233

37 OPERATING EXPENSES

For the year ended 31 December, operating expenses comprised the following:

	<u>2007</u>	<u>2006</u>
Selling and marketing expenses	22,718,968	21,280,148
General administrative expenses	8,941,167	12,340,943
	31,660,135	33,621,091

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37 OPERATING EXPENSES (CONTINUED)

37.1 Selling and Marketing Expenses

For the year ended 31 December, selling and marketing expenses comprised the following:

	<u>2007</u>	<u>2006</u>
Freight insurance expenses	10,630,566	9,712,303
Personnel expenses	4,661,280	4,864,271
Licence fee	2,092,268	1,523,742
Sales commissions	1,207,306	1,008,063
Advertisement expenses	1,201,183	1,636,804
Warehouse expenses	1,073,682	835,052
Agency service expenses	458,564	364,360
Exhibition and fair expenses	298,106	337,349
Other	1,096,013	998,204
	<u>22,718,968</u>	<u>21,280,148</u>

37.2 General Administrative Expenses

For the year ended 31 December, general administrative expenses comprised the following:

	<u>2007</u>	<u>2006</u>
Personnel expenses	4,855,272	6,980,278
Transportation expenses	810,547	847,378
Depreciation and amortization (Note 19 and 20)	462,757	417,992
Travel expenses	254,852	409,327
Repair, maintenance and energy	333,621	322,426
Consultancy expenses	270,726	162,251
Telecommunication expenses	233,578	313,695
Membership fees	201,135	175,453
Rent expenses	110,106	127,519
Taxes other than on income	186,016	164,603
Representation expenses	126,796	130,935
Litigation expenses	87,988	156,443
Insurance expenses	44,418	51,238
Donations	3,510	206,910
Service expenses	--	725,483
Other	959,845	1,149,012
	<u>8,941,167</u>	<u>12,340,943</u>

38 INCOME FROM/LOSS FROM OTHER OPERATIONS

38.1 Income From Other Operations

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For the year ended 31 December, income from other operations comprised the following:

	<u>2007</u>	<u>2006</u>
Reversals of bad debt allowance	69,249	212,505
Gain on sale of tangibles	51,977	1,034,555
Gain on sale of financial asset	--	23,024,165
Other	1,296,195	610,336
	1,417,421	24,881,561

38.2 Loss From Other Operations

For the year ended 31 December, loss from other operations comprised the following:

	<u>2007</u>	<u>2006</u>
Impairment on tangible assets*	2,953,015	--
Idle capacity expenses **	1,874,360	--
Loss on sale of tangible assets	132,872	394,218
Impairment on trade receivable	34,640	216,702
Other	311,117	1,855,479
	5,306,004	2,466,399

(*) Since the glass and stone units of the Company have been renovated, the former units of the Company will not be used in the forthcoming periods. The Company reviewed the useful life of those units and has written off those units amounting to YTL 2,953,015.

(**) Since the glass and stone wool production unit of the Company was subject to periodical general maintenance during the year 2007, expenses such as electricity, wages and salaries pertaining the maintenance period were classified to the expenses belonging to idle capacity.

39 FINANCE INCOME/COST

For the year ended 31 December, net finance costs comprised the following:

	<u>2007</u>	<u>2006</u>
Interest income from credit sales	4,170,383	3,458,936
Currency exchange gain	3,417,717	2,070,447
Interest income on time deposit	3,370,604	2,048,732
Interest expense on borrowings	(647,691)	(2,187,656)
Guarantee expenses	(664,111)	(423,319)
Currency exchange loss	(4,990,128)	(2,109,662)
	4,656,774	2,857,478

40 MONETARY GAIN/LOSS

By the resolution taken on 17 March 2005, the CMB has publicly announced that, effective from 1 January 2005, the application of inflation accounting is no longer required (Note 2). Accordingly, the Company has not generated monetary gain or incurred loss for the year ended 31 December 2007 and 2006.

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41 TAXES ON INCOME

In accordance with Article No. 32 of the new Corporate Tax Law No. 5520 published in the Official Gazette No. 26205 dated 21 June 2006, corporate tax rate is reduced from 30% to 20%. Accordingly, effective from 1 January 2006, statutory income is subject to corporate tax at 20%.

As per the decision no.2006/10731 of the Council of Ministers published in the Official Gazette no.26237 dated 23 July 2006, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, increased from 10% to 15%.

The transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communique’ on disguised profit distribution via transfer pricing, dated 18 November 2008 sets about implementation.

If a tax payer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arms’ length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as a tax deductible for corporate income tax purposes.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is declared by the 10th of the second month following each calendar quarter end and is payable by the 17th of the second month following each calendar quarter end. Tax payments that are made in advance during the year are being deducted from the total final tax liability of the fiscal year. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns on the fifteenth date of the four months following the close of the accounting 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 be offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

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41 TAXES ON INCOME (CONTINUED)

As at 31 December, total tax liabilities comprised the following:

	<u>2007</u>	<u>2006</u>
Corporate tax provision (Note 23)	13,129,951	9,607,600
Taxes paid in advance (Note 23)	(9,449,641)	(7,215,189)
Deferred tax liability (Note 14)	2,596,991	2,492,197
	6,277,301	4,884,608

For the year ended 31 December, taxation expense in the income statement comprised the following:

	<u>2007</u>	<u>2006</u>
Current tax	(13,129,951)	(9,607,600)
Deferred tax income/(charge)	(104,794)	1,576,521
	(13,234,745)	(8,031,079)

The reported taxation charge for the period ended 31 December 2007 are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	<u>2007</u>	<u>%</u>
Profit before tax	64,925,905	
Tax rate	20,00%	
Taxes on reported profit per statutory tax rate	(12,985,181)	(20.00)
Unrecognized deferred taxes from prior year temporary differences	(207,052)	(0.32)
Disallowable expenses	(21,778)	(0.03)
Other	(20,734)	(0.03)
Taxation charge	(13,234,745)	(20.38)

42 EARNINGS PER SHARE

Earnings per share is computed by dividing the net profit for the year ended 31 December 2007 amounting to YTL 51,691,169 (31 December 2006: YTL 60,986,703) to the weighted average of the shares during the period.

	<u>2007</u>	<u>2006</u>
Net profit	51,691,160	60,986,703
Number of weighted average of ordinary shares	2,453,414,335	2,453,414,335
Earnings per share (Ykr per share)	0.02107	0.02486

43 CASH FLOW STATEMENT

Cash flow statement has been presented together with the financial statements.

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44 OTHER MATTERS THAT SIGNIFICANTLY AFFECT THE FINANCIAL STATEMENTS OR MAKE THE FINANCIAL STATEMENTS CLEAR, INTERPRETABLE AND UNDERSTANDABLE

44.1 Financial Risk Management

Due to its operations, the Company is subject to various financial risks including market prices and effects of changes in foreign currency and interest rates. The aggregate risk management program focuses on the unpredictability of the financial markets and aims at minimizing the potential adverse effects on the financial performance of the Company.

44.1.1 Interest rate risk

The Company is subject to the interest rate risk due to impact of changes in the interest rates on the interest rate sensitive asset and liabilities.

An increase of 100 basis points (1%) in interest rates at the reporting date would have increased net profit by YTL 302,260. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis in 2006.

	<u>2007</u>	<u>2006</u>
<i>Net profit increase (per 1% increase in interest rates)</i>		
Fair value sensitivity for fixed rate instruments (time deposits)	332,310	547,858
Cash flow sensitivity for variable rate instruments (borrowings)	(30,050)	(394,000)
	<u>302,260</u>	<u>153,858</u>

44.1.2 Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 10% of the Company's revenue is attributable to sales transactions with a single customer.

The geographical concentration of receivables excluding related parties exposed to the credit risk as at 31 December 2007 is as follows:

	<u>2007</u>
1. District Office (Marmara, West Black Sea Regions)	27,607,051
2. District Office (Central Anatolia, Middle Black Sea Regions)	11,620,922
3. District Office (South East Anatolia, East Anatolia, East Black Sea Regions)	9,097,778
4. District Office (Aegean and Mediterranean Sea Regions)	8,401,569
Middle East, Balkans, Africa and Others	7,028,224
	<u>63,755,544</u>

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44 OTHER MATTERS THAT SIGNIFICANTLY AFFECT THE FINANCIAL STATEMENTS OR MAKE THE FINANCIAL STATEMENTS CLEAR, INTERPRETABLE AND UNDERSTANDABLE (CONTINUED)

44.1 Financial Risk Management (Continued)

As of 31 December 2007, the Company has a letter of guarantee amounting to YTL 40,515,690, mortgage amounting to YTL 4,918,960, eximbank guarantee amounting to YTL 11,927,779 and collaterals taken as notes amounting to YTL 769,279 that are taken from customers and agencies.

The ownership of the financial assets brings the risk of not meeting the obligations of the agreement of the counter party. The Company manages those risks by restricting the average exposure to a counter party (except for related parties) in each agreement and by obtaining collaterals where deemed as necessary. The Company operates most of its business through the agencies in the domestic market. The Company collects letter of guarantees, mortgages and notes collected before the sales from the agencies in order to minimize the risk. The Company reviews on an ongoing basis those collateral with the orders of the agencies that exceeds those collaterals. The provisions set for the bad debt receivables seems within the limits when taking into consideration of the past experiences of the collection of trade receivables. Therefore, the Company, except for the provision set for the bad and doubtful receivables, the Company does not foresee additional risks for the outstanding receivables of the Company.

Most of the Company's customers have been franchising with the Group since the establishment of the Company, and losses have occurred infrequently. The establishment has not been much loss due to receivables from these customers. In monitoring credit risk, customers are grouped according to their credit characteristics and customer types. Most of the trade receivables consist of the receivables from agencies.

The Company makes provisions for its doubtful receivables after a problem arises in collection from the related customer and when the lawyer of the customer is informed for to take legal action.

As of 31 December, aging of trade receivables exposed to credit risk according to customer type is as follows;

	Gross Receivables	Impairment
Not past due	58,221,598	--
Past due 0-30 days	4,001,078	--
Past due 31-120 days	1,532,868	4,639
More than one year	711,342	706,703
	64,466,886	711,342

44.1.3 Guarantees

In accordance of the Company policy, total guarantees given generally to custom houses, domestic suppliers and tax offices is amounting to TRY 3,516,469.

44.1.4 Currency Risk

The Company's net assets are exposed to currency risk on export sales, purchases from abroad and foreign currency denominated bank borrowings. The Company has been following a balancing policy in order to minimize the exposure from currency risk. The Company is exposed to the currency risk

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44 OTHER MATTERS THAT SIGNIFICANTLY AFFECT THE FINANCIAL STATEMENTS OR MAKE THE FINANCIAL STATEMENTS CLEAR, INTERPRETABLE AND UNDERSTANDABLE (CONTINUED)

44.1 Financial Risk Management (Continued)

due to its net assets, export sales and borrowings in foreign currency. For the exchange rate risk, the management of the Company strictly follows up stabilizing foreign exchange position (Note 29).

Under the assumption that a 10 percent depreciation of the YTL against the other currencies as of 31 December 2007 would have increased the net profit of the Company by the amount TRY 2,080,105 (2006: TRY 474,155). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	2007	2006
<i>Net profit increase/(decrease)</i>		
Euro	193,945	(861,362)
USD	1,886,160	1,335,517
	2,080,105	474,155

44.1.5 Liquidity risk

By the cash inflows provided from the operating activities, the Company utilizes its requirements for current and future funding and the remaining portion of those cash inflows are utilized in time deposits with short-term maturities. The Company finances the capital expenditures by the long-term borrowings utilized from the financial institutions. The Company makes its repayments of its borrowing from the cash inflows provided from operating activities through the productivity from those capital expenditures.

The below table shows the monetary assets and liabilities of the Company according to their remaining maturities as of 31 December 2007 and 31 December 2006.

	31.Dec.07					Total
	0-30 Days	30-90 Days	90-180 Days	180-365 Days	More than 365 days	
Cash and cash equivalents	34,578,198	-	-	-	-	34,578,198
Trade Receivables, net	-	63,755,544	-	-	-	63,755,544
Due from Related Parties, net	117,274	-	-	-	-	117,274
Short-term Other Receivables	12,310	-	-	-	-	12,310
Other Current Assets	212,163	134,157	-	-	343	346,663
Total Monetary Assets	34,919,945	63,889,701	-	-	343	98,809,989
Short-term Financial Liabilities	3,005,078	-	-	-	-	3,005,078
Trade Payables	15,303,653	-	-	-	-	15,303,653
Due to Related Parties (net)	-	478,606	-	-	-	478,606
Expense Accruals	756,620	3,680,309	-	-	3,101,115	7,538,044
Other Liabilities	6,697	-	-	-	-	6,697
Total Monetary Liabilities	19,072,048	4,158,915	-	-	3,101,115	26,332,078

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44 OTHER MATTERS THAT SIGNIFICANTLY AFFECT THE FINANCIAL STATEMENTS OR MAKE THE FINANCIAL STATEMENTS CLEAR, INTERPRETABLE AND UNDERSTANDABLE (CONTINUED)

44.1 Financial Risk Management (Continued)

	31.Dec.06					Total
	0-30 Days	30-90 Days	90-180 Days	180-365 Days	More than 365 days	
Cash and cash equivalents	55,752,338	-	-	-	-	55,752,338
Trade Receivables,net	-	52,631,019	-	-	-	52,631,019
Due from Related Parties,net	516,351	-	-	-	-	516,351
Short-term Other Receivables	13,194	-	-	-	-	13,194
Other Current Assets	9,724,659	157,176	-	-	-	9,881,835
Total Monetary Assets	66,006,542	52,788,195	-	-	-	118,794,737
Short-term Financial Liabilities	-	-	-	-	-	-
Trade Payables	18,787,522	-	-	-	-	18,787,522
Due to Related Parties (net)	-	380,971	-	-	-	380,971
Long-term Financial Liabilities	-	-	-	4,364,250	10,965,845	15,330,095
Expense Accruals	724,562	9,607,600	-	-	3,242,495	13,574,657
Other Liabilities	457,045	-	-	-	-	457,045
Total Monetary Liabilities	19,969,129	9,988,571	-	4,364,250	14,208,340	48,530,290