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Independent Auditor's Report on the Consolidated Financial Statements for the Period January 1- December 31 2008

To the shareholders of
Tofaş Türk Otomobil Fabrikası Anonim Şirketi:

We have audited the accompanying financial statements of Tofaş Türk Otomobil Fabrikası Anonim Şirketi (the Company) and its subsidiaries (together will be referred to as "the Group") which comprise the consolidated balance sheet as of December 31, 2008, the related consolidated income statement, consolidated statement of changes in equity and consolidated 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 consolidated financial statements in accordance with Financial Reporting Standards published by Capital Market Board in Turkey. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tofaş Türk Otomobil Fabrikası Anonim Şirketi and its subsidiaries as of December 31, 2008 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Financial Reporting Standards published by Capital Market Board in Turkey.

Other matter

Without qualifying our opinion, we would like to draw attention to the following matter:

As disclosed in Note 37 to the accompanying consolidated financial statements, major portion of the Company's sales and purchases are conducted through its related parties.

Additional paragraph for convenience translation to English:

As described in Note 2, accounting principles and standards applied in the accompanying consolidated financial statements (CMB financial accounting standards) are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board except for the adoption of an earlier date for discontinuation of application of IAS 29 (Financial Reporting in Hyperinflationary Economies). As per CMB financial accounting standards application of inflation accounting was ceased effective as of January 1, 2005 whereas per IFRS it was ceased effective January 1, 2006.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Erdem Tecer, SMMM
Engagement Partner

February 19, 2009
İstanbul, Turkey.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED BALANCE SHEET

As of December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

		(Audited)	(Audited)
	Notes	December 31, 2008	December 31, 2007
ASSETS			
Current Assets		1.457.338	1.553.691
Cash and cash equivalents	6	216.134	437.893
Financial investments	7	29.105	-
Trade receivables			
- Trade receivables from related parties	37	463.599	431.091
- Other trade receivables	10	124.201	253.026
Short-term consumer financing loans	12	179.930	110.861
Other receivables	11	1.323	1.948
Inventories	13	325.746	282.874
Biological assets	14	-	-
Other current assets	26	117.300	35.998
Non-Current Assets		2.113.304	1.622.565
Trade receivables			
- Trade receivables from related parties	37	-	-
- Other trade receivables	10	-	-
Long-term consumer financing loans	12	142.763	123.907
Other receivables	11	-	-
Financial investments			
- Available for sale financial investments	7	32.659	23.994
- Other financial assets	7	-	-
Investments accounted under equity method	16	-	-
Biological assets	14	-	-
Investment properties	17	-	-
Property, plant and equipment	18	1.147.990	981.079
Intangibles	19	692.857	453.373
Goodwill	20	-	-
Deferred tax asset	35	-	9.451
Other non-current assets	26	97.035	30.761
Total Assets		3.570.642	3.176.256

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED BALANCE SHEET

As of December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

		(Audited)	(Audited)
	Notes	December 31, 2008	December 31, 2007
LIABILITIES			
Current Liabilities		1.324.920	1.204.955
Financial liabilities	8	483.677	174.865
Other financial liabilities	9	-	20.922
Trade payables			
- Trade payables to related parties	37	395.959	489.231
- Other trade payables	10	358.046	419.089
Other payables	11	-	-
Liabilities from finance sector operations	12	-	-
Government incentives and grants	21	-	-
Tax liabilities from net income for the period	35	-	-
Provisions	11	41.141	55.012
Other current liabilities	26	46.097	45.836
Non - current liabilities		1.126.261	810.231
Financial liabilities	8	955.141	665.004
Other financial liabilities	9	-	-
Trade payables			
- Trade payables to related parties	37	-	-
- Other trade payables	10	-	-
Other payables	11	-	-
Liabilities from finance sector operations	12	-	-
Government incentives and grants	21	88.737	80.275
Provisions	11	-	-
Reserve for retirement pay	24	70.221	64.952
Deferred tax liability	35	12.162	-
Other non - current liabilities		-	-
Shareholders' equity		1.119.461	1.161.070
Parent company's equity			
Paid - in share capital	27	500.000	500.000
Inflation adjustment on equity items	27	348.382	348.382
Adjustments to share capital and equity instruments		-	-
Share premium		-	-
Revaluation surplus of financial assets	7	20.926	12.261
Foreign currency translation adjustment		-	-
Cumulative gain/(loss) on the hedging		(95.443)	40.585
Restricted reserves	27	30.812	16.394
Retained earnings	27	139.030	67.629
Net income for the period		175.754	175.819
Minority interest		-	-
Total liabilities and shareholders' equity		3.570.642	3.176.256

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

	Notes	(Audited) January 1 - December 31, 2008	(Audited) January 1 - December 31, 2007
Continuing operations			
Net sales	28	4.798.026	3.658.941
Cost of sales (-)	28	(4.231.789)	(3.243.884)
Gross profit/(loss) from business activities		566.237	415.057
Interest, fee, premium, commission and other income		60.096	24.454
Interest, fee, premium, commission and other expense (-)		(56.452)	(19.899)
Gross profit/(loss) from finance sector operations		3.644	4.555
Gross profit/(loss)		569.881	419.612
Selling, marketing and distribution expense (-)	29	(173.800)	(172.835)
General and administrative expense (-)	29	(113.163)	(100.154)
Research and development expense (-)	29	(12.324)	(9.967)
Other operating income	31	27.017	32.413
Other operating expense (-)	31	(50.617)	(2.281)
Operating profit/(loss)		246.994	166.788
Non-operating financial income	32	321.911	121.657
Non-operating financial expense (-)	33	(349.086)	(74.730)
Net income / (expense) before provision for taxes from continuing operations		219.819	213.715
Tax income/(expense) for continuing operations			
- Tax income/(expense) for the period	35	-	(4.473)
- Deferred tax income/(expense)	35	(44.065)	(33.423)
Continuing operations net income/(expense)		175.754	175.819
<i>Discontinuing operations</i>			
Net income / (expense) after provisions for taxes from discontinuing operations		-	-
Net income/(expense)		175.754	175.819
Distribution of net income/(expense) for the period			
Minority interest		-	-
Shares of parent company		175.754	175.819
Earnings per share	36	0,35	0,35
Earnings per share from continuing operations			

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

	Paid-in share capital	Inflation adjustment on equity items	Restricted reserves	Revaluation surplus of financial assets	Cumulative gain/(loss) on the hedging	Accumulated profit / (loss)	Net income for the period	Total shareholders' equity
December 31, 2006	500.000	348.382	7.741	12.261	13.255	54.482	81.875	1.017.996
Transfers	-	-	-	-	-	81.875	(81.875)	-
Transfers to restricted reserves	-	-	8.653	-	-	(8.653)	-	-
Gain on the hedging (*)	-	-	-	-	27.330	-	-	27.330
Dividend distribution	-	-	-	-	-	(60.075)	-	(60.075)
Net profit for the period	-	-	-	-	-	-	175.819	175.819
December 31, 2007	500.000	348.382	16.394	12.261	40.585	67.629	175.819	1.161.070
Transfers	-	-	-	-	-	175.819	(175.819)	-
Transfers to restricted reserves	-	-	14.418	-	-	(14.418)	-	-
Loss on the hedging (*)	-	-	-	-	(136.028)	-	-	(136.028)
Revaluation surplus of financial assets (Note 7)	-	-	-	8.665	-	-	-	8.665
Dividend distribution	-	-	-	-	-	(90.000)	-	(90.000)
Net profit for the period	-	-	-	-	-	-	175.754	175.754
December 31, 2008	500.000	348.382	30.812	20.926	(95.443)	139.030	175.754	1.119.461

(*) Net of deferred tax amount.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

	Notes	December 31, 2008	December 31, 2007
Cash flows from operating activities			
Net income before provision for taxes		219.819	213.715
Reconciliation between net income before taxation and cash generated from operating activities			
Depreciation and amortization	18,19	210.638	122.250
Interest expense	33	52.399	22.017
Interest income	34	(59.645)	(62.536)
Provision for employee termination benefits	24	13.233	14.493
(Gain)/loss on sale of property, plant and equipment	31	260	665
Warranty provision	11	860	7.046
Operating income before working capital changes		437.564	317.650
Net working capital changes in :			
Trade receivables and trade receivables from related parties		96.317	(180.552)
Inventories		(42.872)	(127.103)
Other current/non-current assets and other receivables		(184.720)	42.336
Short/long term consumer financing loans		(87.925)	(201.095)
Trade payables and trade payables to related parties		(154.315)	123.761
Other current liabilities		(18.862)	36.691
Other non-current liabilities		8.462	59.477
Employee termination benefits paid	24	(7.964)	(3.526)
Warranty payments	11	(16.531)	(16.108)
Net cash provided by/(used in) operating activities		29.154	51.531
Cash flows from investing activities			
Interest received		146.926	125.657
Purchase of property, plant, equipment and intangibles	18,19	(620.520)	(563.154)
Proceeds from sale of property, plant and equipment and intangibles	18,19	4.385	1.461
Net cash used in investing activities		(469.209)	(436.036)
Cash flows from financing activities			
Interest paid		(54.299)	(25.617)
Dividend paid		(90.000)	(60.000)
Bank loans received		509.656	496.717
Bank loans repaid		(147.061)	(107.066)
Net cash provided by financing activities		218.296	304.034
Net decrease in cash and cash equivalents		(221.759)	(80.471)
Cash and cash equivalents at the beginning of the period	6	437.893	518.364
Cash and cash equivalents at the end of the period	6	216.134	437.893
Taxes paid		12.226	3.020

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

1. CORPORATE INFORMATION

Tofaş Türk Otomobil Fabrikası A.Ş. (a Turkish corporation, the Company - Tofaş) was established in 1968 as a Turkish-Italian cooperation venture. The core business of the Company is manufacturing, exporting and selling passenger cars and light commercial vehicles under licenses of Fiat Auto S.p.A. (Fiat). The Company, which is a member of Koç Holding A.Ş. (Koç Holding) and Fiat, also produces various automotive spare parts used in its automobiles. The Company's head office is located at Büyükdere Cad. No: 145 Zincirlikuyu Şişli, İstanbul. The manufacturing facilities are located at Bursa. The Company manufactures its cars pursuant to license agreements between the Company and Fiat. The Company has been registered with the Turkish Capital Market Board (CMB) and quoted on the İstanbul Stock Exchange (ISE) since 1991.

The Company conducts a significant portion of its business with affiliates of Koç Holding and Fiat Group (see Note 37).

As of December 31, 2008 and 2007, consolidated subsidiaries of the Company are as follows:

Name of the Company	Operating Area	Percentage of Ownership	
		December 31, 2008	December 31, 2007
Koç Fiat Kredi Tüketici Finansmanı A.Ş.(KFK)	Consumer financing	99.9%	99.9%
Mekatro Araştırma Geliştirme A.Ş. (Mekatro)	Research and development	97.0%	97.0%
Platform Araştırma Geliştirme Tasarım ve Tic. A.Ş. (Platform)	Research and development		
Fer Mas Oto Ticaret A.Ş.	Trading of automobile and spare parts	99.0%	99.0%
		99.4%	99.4%

For the purpose of the consolidated financial statements, the Company and its consolidated subsidiaries are referred to as "the Group".

The average number of personnel in accordance with their categories is as follows:

	December 31, 2008	December 31, 2007
Blue-collar	7.358	5.251
White-collar	1.330	1.234
Total number of personnel	8.688	6.485

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Basis of preparation

The financial statements of the Group have been prepared in accordance with accounting and reporting standards (CMB Accounting Standards) as prescribed by Turkish Capital Market Board (CMB) until December 31, 2007. CMB has issued communiqué no. XI-25 "Communiqué on Accounting Standards in Capital Markets" which sets out a comprehensive set of accounting principles. In this Communiqué, CMB stated that alternatively application of accounting standards prescribed by the International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC) will also be considered to be compliant with CMB Accounting Standards. On March 17, 2005, CMB has issued a resolution and declared that application of inflation accounting is no longer required for companies operating in Turkey and reporting under CMB Accounting Standards, with effect from January 1, 2005. Beginning from January 1, 2008, the financial statements of current year are prepared in accordance with International Accounting / Financial Reporting Standards (IAS/IFRS) as prescribed in the CMB communiqué published in the official gazette dated April 9, 2008 and after became effective No:XI-29 "Communiqué on Financial Reporting Standards in Capital Markets" (Communiqué). In relation to this, except the reclassifications made on the comparative financial statements for the compliance with the Communiqué, it has no impact on the previously published financial statements of the Company.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

The consolidated financial statements were authorized for issue on February 19, 2009 by the Board of Directors of the Company and signed by Cengiz Eroldu, CFO and Selçuk Öncer, Accounting Director, representing Board of Directors. The Group Management and certain regulatory bodies have the authority to amend the statutory financial statements after issue.

Functional and presentation currency

The functional and presentation currency of the Group is accepted as TL. Effective from January 1, 2005 concurrent with the removal of six zero digits, the new currency unit of Turkey was introduced as New Turkish Lira (YTL). The Government resolved to remove the "New" reference in the local currency unit effective from January 1, 2009. Accordingly the Company's figures presented below as of December 31, 2008 in TL using the conversion rate of YTL 1= TL 1.

In accordance with CMB announcement No.11/367 dated March 17, 2005; since the objective conditions for the application of restatement is no longer available and since CMB foresees that the probability of the re-occurrence of the conditions is remote, lastly the financial statements as of December 31, 2004 have been subject to the restatement per International Accounting Standards IAS 29 (Financial Reporting in Hyperinflationary Economies). Therefore, the non-monetary assets, liabilities and shareholders' equity including share capital reported in the balance sheet as of December 31, 2008 and 2007 are derived by indexing the additions occurred until December 31, 2004. The additions after December 31, 2004 are carried with their nominal amounts.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors as of December 31, 2004 does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheet. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

Basis of consolidation

The control relation is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. During consolidation inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using consistent accounting policies for similar transactions and other events in similar circumstances. 3% minority shares of Mekatro, subsidiary of the Company with ownership of 97% and 1% minority shares of Platform, subsidiary of the Company with ownership of 99%, were not recognized under minority interest since they do not have a material effect in consolidated financial statements. Financial statements of the Company and its subsidiaries subject to consolidation were prepared as of the same date.

Reclassifications and amendments made to 2007 financial statements

The Group prepared its financial statements in accordance with the Communiqué No:XI-29 for the first time at March 31, 2008. Per IFRS 1 "Presentation of Financial Statements", the transition date to IAS/IFRS is January 1, 2007.

Certain reclassifications have been made in the consolidated balance sheet as of December 31, 2007 and consolidated income statement to be consistent with the current period financial statements. In order to be comparative with current year presentation, other trade receivables amounting to TL 1.948 is reclassified to other receivables; current portion of long term consumer financing loans amounting to TL 80.996 is reclassified from long term consumer financing loans to short term consumer financing loans; advances given in inventories amounting to TL 1.284 is reclassified to other current assets; property, plant and equipment amounting to TL 30.723 is reclassified to other non-current assets; extraordinary reserves amounting to TL 27.909 is reclassified to retained earnings. Other income from operational activities amounting to TL 86.625 and service income amounting to TL 1.170 for the year ended December 31, 2007 is reclassified to sales income and financial income amounting to TL 4.199 is reclassified to interest, fee, premium, commission and other income.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Changes in accounting policies

The new standards which are effective as of January 1, 2008 and changes and interpretations of current standards are as follows:

IFRIC 11, "IFRS 2 - Group and Treasury Share Transactions" (Effective for fiscal periods beginning on or after March 1, 2007).

This interpretation provides guidance on share-based payment involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments to settle the share-based payment obligation; and Company's granting rights to its equity instruments to employees of its subsidiary. This interpretation also includes subsidiary's granting rights to equity instruments of its parent to its employees.

IFRIC 12, "Service Concession Arrangements" (Effective for fiscal periods beginning on or after January 1, 2008)..

The interpretation outlines an approach to account for contractual arrangements arising from entities providing public services (Service Privilege). It provides for the operator not to account for the infrastructure as property, plant and equipment, but recognize a financial asset and / or an intangible asset.

IFRIC 14, "IAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction" (Effective for fiscal periods beginning on or after January 1, 2008).

IFRIC 14, IAS 19 addresses the interaction between a minimum funding requirement and the limit placed by IAS 19 Employee Benefits on the measurement of the defined benefit asset or liability. Furthermore, this interpretation clarifies the effect of minimum funding requirement on 'test of asset ceiling' and standardizes the applications in use.

The standards which are published but are not effective and are not early adopted by the Group as of the date of authorization of the financial statements, and the changes and interpretations to the current standards are as follows:

IAS 23, "(Revised) Borrowing Costs" (Effective for fiscal periods beginning on or after January 1, 2009).

The change is the removal of the option of immediately recognised as an expense borrowing costs that related to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize borrowing costs as part of the cost of such assets. In conformity with transition to the standard, the Group will adopt the changes in the future periods. If any, the standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. There will be no amendment on the borrowing costs which are expensed until the mentioned date.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets (Revised) (Effective for fiscal periods beginning on or after July 1, 2008)

The amendment to IAS 39, issued in October 31, 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category to the available-for-sale or held-to-maturity category in particular circumstances. The amendment also permits the Group to transfer from the fair value through profit or loss, or available-for-sale categories, to the loans and receivables category when that financial asset meets the definition of loans and receivables and if the entity has the intention and ability to hold that financial asset for the foreseeable future. The effective date of the amendment is July 1, 2008 and reclassifications before that date are not permitted.

Such new standard, amendments and interpretations to existing standards did not have any material effect on the consolidated financial statements.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2008
(Currency - Thousands of Turkish Liras (TL))

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

IFRS 8, Operating Segments (effective for financial years beginning on or after 1 January 2009).

IFRS 8 replaces IAS 14 "Segment Reporting" and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences.

IFRIC 13, "Customer Loyalty Programmes"(Effective for fiscal periods beginning on or after July 1, 2008).

The interpretation requires loyalty award credits granted to customers in connection with a sales transaction to be accounted for as a separate component of the sales transaction. The consideration received in the sales transactions would, therefore, be allocated between the loyalty award credits and the other components of sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. Since the Group does not have such an implementation, IFRIC 13 will not have any effect on the consolidated financial statements of the Group.

IAS 1, "Presentation of Financial Statements" (Revised) (Effective for fiscal periods beginning or after January 1, 2009).

IAS 1 has been revised to enhance the usefulness of information in the financial statements. The main changes from the previous version are; an entity must present all non-owner changes in equity in a separate line and present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. In addition, a statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income" is introduced. The Group will make necessary changes related to presentation of consolidated financial statements in 2009.

IFRS 2, "Share Based Payments (Revised) – Qualifying and Cancellation" (Effective for fiscal periods beginning on or after January 1, 2009).

Standard clarifies two issues: Definition of 'Vesting Conditions' and the concept of 'Non-vesting Conditions' for the arrangements other than performance and service conditions. This standard also states that, if neither the Group nor the counterparty has the choice as to whether to meet a non-vesting condition, a failure to meet this non-vesting condition does not have any accounting effect, similar to the treatment of market conditions. It is expected that IFRS 2 will not have any effect on the financial statements of the Group.

IFRS 3, Business Combinations and IAS 27 Consolidated and Separate Financial Statements (revised) (effective for annual periods beginning on or after July 1, 2009).

Revised IFRS 3 and revised IAS 27 are published by IASC at January 10, 2008. Revised IFRS 3 (IFRS 3R) requires various changes for the accounting of business combinations, booking of goodwill and reporting of the financial results of the period related to the mergers. The related changes require that the costs associated to the purchase to be expensed and on the contingent cases considered at the purchase, to consider the fair value changes incurred at the subsequent period in the income statement other than adjusting in the goodwill. Revised IAS 27 (IAS 27R) requires that the changes in the shareholding of the subsidiaries should be treated as change in equity movement. As a result, the related change in equity movement would have no impact on the goodwill or the profit or loss. Besides, this standard provides changes in accounting of the standard subsidiary losses and the accounting of the loss on the control in the subsidiaries.

Amendments to IAS 32 and IAS 1: "Puttable Financial Instruments and Obligations Arising on Liquidation" (Effective for fiscal periods beginning of after January 1, 2009).

The change in IAS 32 considers that some puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of net assets of the entity only on liquidation are equity. The change in IAS 1 recommends that the puttable financial instruments should be described and explained in detail.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2008

(Currency - Thousands of Turkish Liras (TL))

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

IFRIC 15, "Agreements for the Construction of Real Estate, this interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' (Effective for fiscal periods beginning on or after January 1, 2009).

IFRIC 16, "Hedges of a Net Investment in a Foreign Operation", This interpretation provides guidance in respect of foreign currency gains and losses on a net investment in a foreign operation (Effective for annual periods beginning on or after October 1, 2008).

"Improvements to IFRSs- May 2008", the first standard published under the IASB's "Annual Improvements Process" which is intended to deal with minor amendments to IFRSs, with a view to removing inconsistencies and clarifying the contents of the standards. Most of amendments have an effective date of periods beginning on or after January 1, 2009. Relevant amendments are as follows:

"IFRS 5 Non-current Assets Held for Sale and Discontinued Operations", when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

IFRS 7, "Financial Instruments" Disclosures: Removal of the reference to 'total interest income' as a component of finance costs.

IAS 1 "Presentation of Financial Statements", assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

IAS 8, "Accounting Policies, Change in Accounting Estimates and Errors", clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 "Events after the Reporting Period", Clarification that dividends declared after the end of the reporting period is not an obligation.

IAS 16, "Property, Plant and Equipment", replace the term "net selling price" with "fair value less costs to sell". Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

IAS 18, "Revenue", replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

IAS 19 "Employee Benefits" and IAS 29 "Financial Reporting in Hyperinflationary Economies". Minor amendments regarding to the definitions have been revised.

IAS 20, "Accounting for Government Grants and Disclosures of Government Assistance" Peer interest application in accordance with IAS 39 will be put in practice for the loans granted with no or low interest rate.

IAS 23, "Borrowing Costs", the definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

IAS 27, "Consolidated and Separate Financial Statement", when a parent entity accounts for a subsidiary at fair value in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

IAS 28, "Investment in Associates", requirement of certain footnotes if associates are classified as assets of which changes in fair value recognised in profit or loss.

IAS 29 "Financial Reporting in Hyperinflationary Economies", Revised the reference to the exception to measure assets and liabilities at historical cost.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2008
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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

IAS 31, "Interest in Joint Ventures", if a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

IAS 34, "Interim Financial Reporting", earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

IAS 36, "Impairment of Assets", Amendments to the disclosures of estimates used to determine recoverable amount. When discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosures are required as when discounted cash flows are used to estimate 'value in use'.

IAS 38, "Intangible Assets", expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service.

IAS 39, "Financial Instruments: Recognition and Measurement", changes in the position of derivative instruments do not constitute a reclassification. The amendment clarifies how to designate of inflation in a financial hedged item under hedge accounting. Since the Group does not have aforementioned hedge accounting; it is considered that the amendments will not have any effect in the consolidated financial statements.

IAS 40, "Investment Property", property under construction or development for future use is classified as investment property and is in the scope of IAS 40 and if calculated reliably, is carried as fair value. If the fair value cannot be calculated reliably, the continuing construction is carried at cost, until the fair value can be calculated or the construction is completed.

IAS 41, "Agriculture", removed the requirement to the use of a pre-tax discount rate to determine fair value. Besides, additional biological transformations are clarified.

The Group management is considering the effects of the first time application of these amendments to its consolidated financial statements.

Significant accounting judgments and estimates

The preparation of financial statements require the Group management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Those estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Significant estimates used in the preparation of these financial statements and the significant judgments with the most significant effect on amounts recognized in the financial statements are as follows:

- a) Reserve for retirement pay is determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates). As of December 31, 2008 and 2007, retirement pay liabilities are TL 70.221 and TL 64.952, respectively.
- b) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- c) The fair value of the Company's available for sale financial asset, Entek Elektrik Üretimi A.Ş., has been calculated based on discounted cash flow method generated from the statement of income and balance sheet projections for the following 10 years.
- d) KFK, wholly owned subsidiary, applies hedge accounting for the derivative financial assets and derivative financial liabilities within balance sheet, and accounts the transactions as fair value option. KFK uses discounted cash flow model for valuation of derivative financial assets and liabilities, since fair value of these instruments are not able to be obtained through active markets. KFK has classified cash flow hedge financial asset amounting to TL 29.105 as of December 31, 2008.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

e) A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. As of December 31, 2008, KFK has reserved portfolio provision amounting to TL 2.645.

Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and short-term highly liquid investments whose risk of value change is not material including time deposits generally having original maturities of three months or less (see Note 6).

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

As of December 31, 2008 and December 31, 2007 the Group does not have any financial assets at fair value through profit or loss financial investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available for sale financial investments

Available for sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the three categories (a) loans and receivables, (b) held-to-maturity investments and (c) assets at fair value through profit or loss. A gain or loss on an available-for-sale financial asset after initial recognition shall be recognized directly in equity, through the statement of changes in equity, except for impairment losses, dividend and interest gains, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. If a fair value loss on an available-for-sale asset has been recognized directly in equity, and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity should be recycled into profit or loss even though the financial asset has not been sold.

The fair value of available for sale financial assets is determined by the market price at the balance sheet date when available. If market price is not available, then fair value is estimated based on valuation process by using discounted cash flow, similar purchases and observable market parameters. The fair value of financial assets must be carried at cost less impairment, when the fair value of financial assets cannot be measured reliably (see Note 7).

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Trade receivables

Trade receivables have a maturity range of 30-90 days and are recognized at original invoice amount and carried at amortized cost less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The allowance is an estimated amount which is difference between existing receivable and collectible amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate. Bad debts are written off when identified (see Note 10).

Trade payables

Trade payables have average maturities changing between 30-90 days and consist of the amounts invoiced or not invoiced related with the realized material or service purchases, and are carried at amortized cost (see Note 10).

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows: Raw materials - purchase cost on a monthly average basis; finished goods and work-in-process - cost includes the applicable allocation of fixed and variable overhead costs on the basis of monthly average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. The scrap inventory is written off when identified (see Note 13).

Property, plant and equipment

Property, plant and equipment (PP&E) are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of PP&E comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the PP&E have been put into the operation, such as repairs and maintenance and overhaul costs are normally charged to income in the period the costs are incurred. Expenditures are added to cost of assets if the expenditures provide economic added value for the future use of the related PP&E.

Depreciation is computed on a straight-line basis over the estimated useful lives (see Note 18). The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of PP&E. The depreciation terms are as follows :

	Duration (years)
Land improvements	33
Buildings	33
Machinery and equipment	12 – 14
Motor vehicles	4 – 8
Furniture and fixtures	8
Moulds and models	6 – 8
Leasehold improvements	5 – 30

In case of any indication of the impairment in the carrying value of property, plant and equipment, the recoverable amount is re-assessed and provision for impairment is reflected in the financial statements.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of net selling price or value in use. Net selling price is determined by deducting any expenses to be incurred for the sale of an asset from the fair value of the asset. Value in use is calculated as the discounted value of the estimated future cash flows the entity expects to receive from the asset.

Gains and losses on sale of property, plant and equipment are included in other operating income and expense (see Note 31).

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over their useful lives (5 years). The depreciation period for the intangibles capitalized in relation with the new models will be started after the production of these models is started. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable (see Note 19).

Research and development costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply with the following criteria:

- The product or process is clearly defined and costs are separately identified and measured reliably,
- The technical feasibility of the product is demonstrated,
- The product or process will be sold or used in-house,
- A potential market exists for the product or its usefulness in case of internal use is demonstrated, and
- Adequate technical, financial and other resources required for completion of the project are available.

The costs related to the development projects are capitalized when the criteria above are met and amortized by straight-line basis over the useful lives of related projects (8 years).

Interest income and expense

Interest income and expense are recognized in the income statement on accrual basis using the effective yield method. Interest income is suspended when consumer financing loans given by the Group become doubtful or when the borrower defaults.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are stated net of discounts, value added and sales taxes. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Net sales are invoiced amounts of delivered goods excluding sales returns.

Service income is recognized when the service is rendered and the amount is reliably measured.

Interest income is recognised using the effective interest rate until maturity and considering the effective interest rate.

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized on an accrual basis as financial income.

Dividend income is recognized when the Group has the right to receive the dividend payment. Rent income is recognized in the financial statements when the Group's right to receive the monthly rent income is established.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Recognition and derecognition of financial instruments

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion of financial asset. The Group derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

All the normal sales or purchase transactions of financial assets are recorded at the transaction date, that the Group guaranteed to purchase or sell the financial asset. These transactions generally require the transfer of financial asset in the period specified by the general conditions and the procedures in the market.

Bank borrowings

All bank borrowings are initially recognized at cost, being the fair value of the consideration received net of issue cost associated with the borrowing. After initial recognition, bank borrowings are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement (see Note 8).

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. Other borrowing costs are recognized as an expense in the period in which they are incurred. As of December 31, 2007, the Group capitalized TL 21.351 of interest expense on loans obtained in relation with the investment of Mini Cargo model and recognized under property, plant and equipment account. As of December 31, 2008, the Group capitalized TL 27.437 of bank expense, commission and interest on loans obtained for the investment of New Doblo project.

Fair value of financial instruments

Fair (market) value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The fair values of the financial instruments are determined in accordance with the following methods and assumptions as follows:

Financial assets

Monetary assets for which fair value approximates carrying value are carried at cost in the financial statements and consists of cash and cash equivalents, their interest accruals, and other financial assets; and considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The carrying value of accounts receivable along with the related allowance for unearned income and uncollectibility are estimated to be their fair values.

Financial liabilities

Monetary liabilities for which fair value approximates carrying value including accounts payable, short-term bank borrowings and other monetary liabilities are considered approximate their respective carrying values due to their short-term nature. The bank borrowings are stated at their amortized costs and transaction costs are included in the initial measurement of bank borrowings. The fair value of bank borrowings are considered to state their respective carrying values since the interest rate applied to bank borrowings are updated periodically by the lender to reflect active market price quotations. The carrying value of accounts payable along with the related allowance for unrealized cost is estimated to be their fair values.

Income taxes

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Deferred tax is computed, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred taxes arising from income and expenses accounted under equity are also recorded under equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed by the Group at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized (see Note 35).

Employee benefits / retirement pay liability

Defined benefit plans

In accordance with existing social legislation, the Group is required to make lump sum termination indemnities to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the consolidated financial statement, the Group has reflected a liability calculated using "Projected Unit Credit Method" and based upon factors derived using the Group's experience of personnel terminating their services and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. All actuarial gains and losses calculated are reflected in the income statement (see Note 24).

Defined contribution plans

The Group is obliged to pay premiums to Social Security Institution for its employees during the period of employment. The Group does not have any further obligation as long as it realizes the payment of such premiums. Social security premiums are reflected in the personnel expenses as they accrue. During 2008, the Group had social security premium expenses amounting to TL 44.942 (December 31, 2007 - TL 35.885).

Earnings per share

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

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (bonus shares) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such bonus share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Group, are regarded similarly (see Note 36).

Subsequent events

Post-period-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when material.

Provisions, contingent assets and liabilities

Provisions

A provision is recognized when, and only when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Provisions are recognized by the amortized amount as of balance sheet date in case that the monetary loss is material. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Warranty provision

The Group provides free of charge maintenance service for the vehicles, during the first two-year period following the date of sale. Export sales of the Group are not under a warranty commitment. Warranty provision is periodically reviewed and reassessed in accordance with the realized expenses in the previous periods (see Note 11).

Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Foreign currency transactions

Income and expenses arising in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet dates, which are announced by Central Bank of the Republic of Turkey. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the related income and expense accounts, as appropriate.

Use of estimates

The preparation of financial statements requires Group management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Warranty provision, reserve for employee termination, useful lives of property, plant and equipment, unused investment allowance amount and other provisions rely on significant estimates and judgments. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Cash flow hedge

Changes in the fair value of a hedging instrument that qualifies as a highly effective cash-flow hedge are recognized directly in shareholders' equity. The ineffective portion is immediately recognized in net profit or loss. If the cash flow hedge results in the recognition of an asset or a liability, all gains and losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred from hedging reserve to net profit or loss in the same period or periods during which the hedged firm commitment or forecasted transaction affects the income statement.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the committed or forecasted transaction occurs. When the committed or forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is transferred to the income statement.

There is an effective cash flow hedge relationship between foreign currency originated long term loans and the realized and forecasted sales (items subject to be hedged) of light commercial vehicles (Doblo and Mini Cargo (MCV)). According to the agreements made between the Company and Fiat and Peugeot Citroen Automobiles S.A. (PSA) the long term loan liabilities will be covered by the planned sales of MCV to Fiat and PSA starting from 2008 until December, 2015. Additionally, the carrying amount of long term loan liabilities for Doblo will be covered by the planned sales to Fiat until the beginning of 2009.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Furthermore, KFK, subsidiary of the Group has entered into swap transactions in order to minimize its foreign currency risk and interest rate risk and manage its liquidity in foreign currency. Swap transactions are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Swap transactions that are designated as hedging instruments for cash flow hedges are accounted for in accordance with hedge accounting policies under International Accounting Standards.

KFK funds its long term fixed interest rate TL loan portfolio with long term foreign currency funds obtained from international markets. KFK changes the foreign currency liquidity obtained from the international markets to TL liquidity with long term swap transactions. Therefore these long term fixed interest rate loan portfolio are funded by TL and protected from interest and foreign exchange rate risks.

The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

KFK values these swaps designated as cash flow hedging instrument by using the recent market rates or discounted cash flow methods based on market rates of similar instruments and the gain or loss on the effective portion of the hedging instrument is recognized directly "Cumulative gain/(loss) on the hedging" in equity, while any ineffective portion is recognized immediately in profit or loss. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

Related parties

Parties are considered related to the Group if;

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party has a post-employment benefit plan for the benefit of employees of the Group, or of an entity that is a related party of the Group.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged.

A number of transactions are entered into with related parties in the normal course of business. Generally, these transactions have been performed with prices adequate to market values (see Note 37).

Investment, research and development incentives

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systemic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recorded as deferred income.

Investment and research and development incentives are recognized when incentive application of the Group are approved by fiscal authorities (see Note 21).

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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3. MERGERS AND ACQUISITIONS

None.

4. JOINT VENTURES

None.

5. SEGMENT REPORTING

Since the Company operates in one business segment and the operations are held in Turkey, there is no segment reporting.

6. CASH AND CASH EQUIVALENTS

	December 31, 2008	December 31, 2007
Cash on hand	6	43
Cash at banks		
- demand deposits	31.755	52.901
- time deposits	184.437	385.109
Payment orders	(64)	(160)
Total	216.134	437.893

The breakdown of time deposits is as follows:

	December 31, 2008		December 31, 2007	
	Amount (TL equivalent)	Effective interest rate per annum (%)	Amount (TL equivalent)	Effective interest rate per annum (%)
Denominated in TL	85.913	17,15 – 23,15	302.182	12 - 19,2
Denominated in USD	69	4,25	1.043	5
Denominated in EUR	98.455	4,25 – 4,97	81.884	3,4 - 5
Total	184.437		385.109	

As of December 31, 2008, the maturities of time deposits vary between 1 and 43 days (December 31, 2007 - between 1 day and 1 month). The time deposits bear fixed interest rates.

As of December 31, 2008, the cash at banks comprise deposits amounting to TL 76.353 (December 31, 2007 – TL 317.091) which are deposited at a bank which is related party of the Group.

7. FINANCIAL INVESTMENTS

a) Short - term financial investments

KFK funds its long term fixed interest rate TL loan portfolio with long term foreign currency funds obtained from international markets. KFK changes the foreign currency liquidity obtained from the international markets to TL liquidity with long term swap transactions. Therefore these long term fixed interest rate loan portfolio are funded by TL and protected from interest and foreign exchange rate risks. KFK hedged its cash flow risk arising from interest rate and foreign exchange rate volatility of the syndication loan amounting to USD 75 million and other USD 75 million loans by 13 interest rate swaps (December 31, 2007 – 7 interest rate swaps) amounting to; USD 25 million, USD 40 million, 7 units each USD 5 million, 3 units each USD 10 million and USD 20 million. The critical conditions of the swap contracts such as the reprising and installment and principal repayment dates are the same with the terms of the hedged item which is the foreign currency borrowings. The fair value of the related swap transactions as of December 31, 2008 amounts to TL 29.105 and is accounted under "short term financial investments" (The fair value as of December 31, 2007 amounts to TL 20.922 and is accounted under the financial statements as "other financial liabilities").

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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7. FINANCIAL INVESTMENTS (continued)

Unrealized profit accounted by KFK under equity within the period regarding to swaps designated as cash flow hedging instrument is TL 50.027, net amount after deduction of deferred tax asset is TL 40.021 and the amount which deducted from equity and taken to profit/loss for the period is TL 36.985. The aforementioned amount is included in financial expense as income amounting to TL 46.231 and in tax expense amounting to TL 9.246.

b) Available for sale financial investments

As of December 31, 2008 and 2007, available for sale financial assets of the Group comprised the following:

	Percentage of interest	December 31, 2008	December 31, 2007
Entek Elektrik Üretimi A.Ş. (Entek)	13.33%	32.659	23.994
		32.659	23.994

As of December 31, 2008, the participation has been reflected at its assessed fair value of TL 32.659, which is derived from the appraisal study dated January 28, 2009. The total valuation difference of TL 20.926 is presented under the "revaluation surplus of financial investments" account under shareholders' equity (December 31, 2007 – TL 12.261). The appraisal study is based on the 10 years balance sheet and income statement projections prepared by Entek management and the fair value of Entek is calculated using the discounted cash flow method.

8. FINANCIAL LIABILITIES

a) Short-term financial liabilities

	December 31, 2008			December 31, 2007		
	Amount in thousands (original currency)	Amount (TL equivalent)	Effective interest rate per annum (%)	Amount in thousands (original currency)	Amount (TL equivalent)	Effective interest rate per annum (%)
Short-term bank borrowings						
Denominated in TL (*)	-	44.300	19,53	-	46.741	13 – 17,05
Denominated in EUR	8.100	17.340	5,19 – 7,85	2.100	3.591	4,84 – 5,57
Denominated in USD(*)	25.565	38.662	4,38 – 5,38	-	-	-
Accrued interest		5.081			705	
Current portion of long-term bank borrowings		378.294			123.828	
Total		483.677			174.865	

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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8. FINANCIAL LIABILITIES (continued)

b) Long-term financial liabilities

	December 31, 2008			December 31, 2007		
	Amount in thousands (original currency)	Amount (TL equivalent)	Effective interest rate per annum (%)	Amount in thousands (original currency)	Amount (TL equivalent)	Effective interest rate per annum (%)
Long-term bank borrowings						
Denominated in EUR			6 months Euribor-0,073%			6 months Euribor-0,073%
	477.093	1.021.360	6 months Euribor+1,34%	361.993	619.080	6 months Euribor+1,34%
	125.000		3,72 – 5,38			5,80 – 6,52
Denominated in USD(*)			16,40 – 23,85			16,40 – 21,20
Denominated in TL(*)						
Accrued interest		189.037		115.000	133.941	
Commercial paper (**)		40.000			29.465	
Less: Current portion of		14.949			6.346	
long- term bank borrowings		68.089		-	-	
		(378.294)			(123.828)	
Total		955.141			665.004	

(*) The portion amounting to TL 28.800 of the short-term bank borrowings and the whole long-term bank borrowings which are denominated in TL and USD comprise bank borrowings obtained by KFK, consolidated subsidiary, to finance consumer financing loans.

(**) Commercial papers amounting to TL 68.089 as of December 31, 2008 comprise of bonds issued by KFK one of which is issued on January 7, 2008 with 540 days maturity, 17,81% gross interest rate and TL 40.000 nominal payment on the maturity, and the other one is issued on November 13, 2008 with 540 days maturity, 17,81% gross interest rate and TL 50.000 nominal payment on maturity.

TL loans bear fixed interest rates while Euro and USD loans bear variable interest rates.

The repayment schedule of the long-term bank borrowings as of December 31, 2008 and 2007 is as follows:

	December 31, 2008	December 31, 2007
1 - 5 years	589.153	462.187
5 years and more	365.988	202.817
	955.141	665.004

Repayment of the long-term loans- obtained in relation with the investment for Mini Cargo model- has been started to be repaid beginning from the year 2008 till 2015 in equal installments. As of December 31, 2008 the remaining balance of the loan is TL 592.393 (equivalent of Euro 276.716 thousand). The Euro denominated long-term loans were obtained to finance the investment to manufacture Doblo and Mini Cargo light commercial vehicles. The Group has obtained EUR 350 million long-term loan limit in 2006 based on two different manufacturing agreements with the participation of various financial institutions to be utilized in investment of Mini Cargo. According to the manufacturing agreements signed by the Group, the repayment obligations related loans obtained for (i) Doblo is guaranteed by Fiat and (ii) Mini Cargo is by Fiat and PSA through future purchases. Accordingly, the Group's exposure to foreign exchange rate and interest rate fluctuations is undertaken by Fiat and PSA.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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8. FINANCIAL LIABILITIES (continued)

At March 4, 2008, a loan agreement has been signed between the Company and i) Societe Generale, Calyon, Fortis Bank S.A., Ing Bank NV and Intesa Sanpaolo banks as regulator, grantor and guarantor ii) EIB as guarantor and credit grantor and iii) Servizi Assicurativi per il Commercio Estreo S.p.A. (SACE) as guarantor role in the consortium amounting to Euro 450 million. The loan, of which TL 393.466 (equivalent of Euro 183.794 thousand) has been obtained as of December 31, 2008, has a maturity of ten years with two years grace period and it will be used for financing investment expenditures regarding to the development and production of Project 263 (New Doblo).

9. OHER FINANCIAL LIABILITIES

None(December 31, 2007 – TL 20.922).

10. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	December 31, 2008	December 31, 2007
Trade receivables	124.202	254.014
Doubtful trade receivables	1.081	486
	125.283	254.500
Less: provision for doubtful receivables	(885)	(484)
Less: discount	(197)	(990)
Total	124.201	253.026

The movement of the provision for doubtful receivables for the year ended December 31, 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
January 1	484	484
Collections	-	-
Additional provision	401	-
Total	885	484

As of December 31, 2008, the letter of guarantees, guarantee notes, mortgages and direct debit system limit (*) obtained as collateral for trade receivables amounting to TL 33.677, TL 12.495, TL 6.008 and TL 225.555, respectively (December 31, 2007 - letter of guarantees amounting to TL 112.280, guarantee notes amounting to TL 10.670, mortgages amounting to TL18 and direct debit system limit amounting to TL 220.830).

(*) Represents the payment guarantee limit granted by the banks to their customers based on their transaction volume.

b) Trade payables

	December 31, 2008	December 31, 2007
Trade payables	358.518	420.858
Less: discount	(472)	(1.769)
Total	358.046	419.089

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 31, 2008
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11. OTHER RECEIVABLES AND PAYABLES

a) Short-term provisions

	December 31, 2008	December 31, 2007
Warranty provision	35.169	50.840
Personnel wage and salaries provision	1.275	-
Legal and consultancy expense provision	1.317	1.200
Other	3.380	2.972
Total	41.141	55.012

The warranty provision movement for the years ended in 2008 and 2007 is as follows:

	December 31, 2008	December 31, 2007
Balance as of January 1	50.840	59.902
Utilized	(16.531)	(16.108)
Provision for the period	14.444	22.167
Reversals of provisions	(13.584)	(15.121)
December 31	35.169	50.840

b) Long-term provisions

None.

c) Other receivables

As of December 31, 2008, other receivables consist of deposits and guarantees given, amounts to TL 1.323 (December 31, 2007 – TL 1.948).

12. RECEIVABLES FROM FINANCE SECTOR OPERATIONS

	December 31, 2008	December 31, 2007
Short-term consumer financing loans	170.972	109.544
Non-performing loans	15.528	5.907
	186.500	115.451
Provision for loan impairment	(6.570)	(4.590)
Total	179.930	110.861
Long-term consumer financing loans	142.763	123.907
Total	142.763	123.907

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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12. RECEIVABLES FROM FINANCE SECTOR OPERATIONS (continued)

As of December 31, 2008, TL loans originated by the Group bear monthly fixed interest rates ranging between 0,89% - 2,16% per month (December 31, 2007 - 1,20% - 2,05%) and for foreign currency indexed loan between 0,6% - 1,05% (December 31, 2007 - 0,6% - 0,72%). As of December 31, 2008, the Group has guarantees amounting to TL 394.421 regarding to consumer financing loans of subsidiary KFK.

The maturities of long-term consumer financing loans are as follows:

Years	December 31, 2008	December 31, 2007
1 to 2 years	95.717	73.300
2 to 3 years	38.898	39.088
3 years and more	8.148	11.519
Total	142.763	123.907

Movements in the allowance for loan impairment in 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
January 1,	4.590	2.859
Charge for the period	4.167	1.888
Recoveries from loans under follow-up	(433)	(157)
Write-off (certificate of insolvency)	(1.754)	-
December, 31	6.570	4.590

The Group has obtained pledge rights as a guarantee for its consumer financing loans, up to total amount of receivables, depending on the agreement between the Group and the consumers. Furthermore, the Group has also obtained mortgage guarantee in necessary conditions. As of December 31, 2008, the fair value of guarantees obtained for the consumer loans, which have been impaired, amounts to TL 12.182 and provision is recorded for those loans. The fair value of guarantees obtained for the consumer loans, to whom no provision has been provided, amounts to TL 49.535.

13. INVENTORIES

	December 31, 2008	December 31, 2007
Raw materials, net of reserve for obsolescence of TL 2.328 (December 31, 2007 - TL 1.069)	141.370	96.108
Work-in-process	39.109	53.503
Finished goods, net of reserve for obsolescence of TL 1.497 (December 31, 2007 - TL 445)	22.604	36.266
Spare parts, net of reserve for obsolescence of TL 2.316 (December 31, 2007 - None)	22.105	21.380
Imported vehicles, net of reserve for obsolescence of TL 2.299 (December 31, 2007 - TL 265)	48.938	30.639
Goods-in transit	51.620	44.978
Total	325.746	282.874

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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14. BIOLOGICAL ASSETS

None.

15. ASSETS RELATED WITH CONSTRUCTION PROJECTS IN PROGRESS

None.

16. INVESTMENTS ACCOUNTED UNDER EQUITY METHOD

None.

17. INVESTMENT PROPERTIES

None.

18. PROPERTY, PLANT AND EQUIPMENT

During the year ended December 31, 2008, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	Land, land improvements and buildings	Machinery and equipment	Moulds and models	Furniture and fixture	Motor vehicles	Leasehold improvements	Construction in progress	Total
At December 31, 2007, net of accumulated depreciation	130.823	386.725	288.610	61.110	10.086	6.063	97.662	981.079
Additions	-	93	-	63	4.090	112	306.975	311.333
Disposals	(706)	(7.318)	-	(12.436)	(3.775)	-	-	(24.235)
Transfers	33.146	53.921	60.892	36.226	-	129	(184.314)	-
Accumulated depreciation of disposals	259	6.851	-	12.062	2.246	-	-	21.418
Depreciation charge for the period	(5.554)	(31.605)	(86.365)	(13.564)	(3.683)	(834)	-	(141.605)
At December 31, 2008, net of accumulated depreciation	157.968	408.667	263.137	83.461	8.964	5.470	220.323	1.147.990
At December 31, 2008								
Cost	328.456	1.226.052	1.297.279	250.781	31.455	8.254	220.323	3.362.600
Accumulated depreciation	(170.488)	(817.385)	(1.034.142)	(167.320)	(22.491)	(2.784)	-	(2.214.610)
At December 31, 2008, net carrying amount	157.968	408.667	263.137	83.461	8.964	5.470	220.323	1.147.990

During the year ended December 31, 2007, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	Land, land improvements and buildings	Machinery and equipment	Moulds and models	Furniture and fixture	Motor vehicles	Leasehold improvements	Construction in progress	Total
At December 31, 2006, net of accumulated depreciation	111.342	146.305	134.633	31.056	6.418	6.066	245.169	680.989
Additions	-	10	-	191	7.529	5	398.641	406.376
Disposals	-	(27.000)	(8.130)	(11.519)	(3.469)	-	-	(50.118)
Transfers	24.185	263.949	218.423	38.811	-	780	(546.148)	-
Accumulated depreciation of disposals	-	26.804	8.130	11.148	2.575	-	-	48.657
Depreciation charge for the period	(4.704)	(23.343)	(64.446)	(8.577)	(2.967)	(788)	-	(104.825)
At December 31, 2007, net of accumulated depreciation	130.823	386.725	288.610	61.110	10.086	6.063	97.662	981.079
At December 31, 2007								
Cost	296.016	1.179.356	1.236.387	226.928	31.140	8.013	97.662	3.075.502
Accumulated depreciation	(165.193)	(792.631)	(947.777)	(165.818)	(21.054)	(1.950)	-	(2.094.423)
At December 31, 2007, net carrying amount	130.823	386.725	288.610	61.110	10.086	6.063	97.662	981.079

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Restrictions on assets

As of December 31, 2008 and 2007, there are no restrictions on assets.

19. INTANGIBLES

During the year ended December 31, 2008 and 2007, the movement of intangibles is as follows:

	License fee and development costs	Others	Total
At December 31, 2007, net of accumulated amortization	441.589	11.784	453.373
Additions	305.294	3.893	309.187
Disposals	-	(2.501)	(2.501)
Accumulated amortization of disposals	-	1.831	1.831
Amortization charge for the period	(68.252)	(781)	(69.033)
At December 31, 2008, net of accumulated amortization	678.631	14.226	692.857
At December 31, 2008			
Cost	902.385	29.418	931.803
Accumulated amortization	(223.754)	(15.192)	(238.946)
At December 31, 2008, net carrying amount	678.631	14.226	692.857
	License fee and development costs	Others	Total
At December 31, 2006, net of accumulated amortization	307.398	6.622	314.020
Additions	150.553	6.225	156.778
Amortization charge for the period	(16.362)	(1.063)	(17.425)
At December 31, 2007, net of accumulated amortization	441.589	11.784	453.373
At December 31, 2007			
Cost	597.091	28.026	625.117
Accumulated amortization	(155.502)	(16.242)	(171.744)
At December 31, 2007, net carrying amount	441.589	11.784	453.373

Intangible assets are started to be amortized when the related assets are ready to be used. In relation to this, the Group has intangible assets amounting to TL 200.990, which are not started to be amortized and which are not determined as ready to be used.

20. GOODWILL

None.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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21. GOVERNMENT INCENTIVES

Investment incentive certificates

The Group has obtained investment encouragement certificates from government authorities in connection with certain major capital expenditures, which entitle the Group to:

- i) 100% exemption from customs duty and VAT on machinery and equipment to be imported;
- ii) 100% VAT exemption on local capital expenditures.

As of December 31, 2008 the amount of unused investment allowance is TL 2.141.858 (December 31, 2007 – TL 1.843.543) and this amount will not be subject to current tax calculation as of January 1, 2009. The Group has not used any investment allowance in current tax calculation in 2008 (December 31, 2007 – TL 87.060).

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 100% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations. The aforementioned law has been enacted as of April 1, 2008. Accordingly, in 2008, income tax-payers can deduct 100% of the expenditures which are related to research and development related to new technology and information developments. In 2008, it is required that 40% research and development incentive rate should be applied at the first quarter temporary taxation period for the research and development expenditures incurred until the first taxation period, while 100% would be applied at the second and following temporary taxation periods for the total of research and development expenditures of the period which also includes the expenditures in the first temporary taxation period.

Total amount of research and development expenses of the Company is TL 307.768. The amount subject to corporate income tax R&D allowance is TL 273.764 after deduction of Technology and Innovation Funding Programs Directorate (TEYDEB) supports collected during the year amounting to TL 5.346 and TL 28.658 which is not subject to corporate income tax R&D allowance. TL 226.212 portion of the amount subject to corporate income tax R&D allowance is related with the certified projects and TL 47.552 portion was sent to Ministry of Finance for authorization and approval. As of December 31, 2008 unused R&D allowance amounts to TL 222.409.

As of December 31, 2008 government incentives of the Group amounting to TL 88.737 has been originated from deferral of research and development incentive premiums provided to support research and development expenditures of Mini Cargo project by the Scientific & Technological Research Council of Turkey (Tübitak). The related balance will be recognized as revenue in line with the amortization terms of the research and development investments (December 31, 2007 – TL 80.275).

22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Litigations

As of December 31, 2008 the total amount of outstanding legal claims brought against the Group is TL 1.596 (December 31, 2007 - TL 1.955). The Group has reflected a reserve amounting to TL 1.317 (December 31, 2007 - TL 1.200) in the financial statements.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)

Bank letters of guarantee

The breakdown of letters of guarantee and guarantee notes given by the Group as of December 31, 2008 and 2007 is as follows:

		December 31, 2008	December 31, 2007
a) Letters of guarantee given to banks, customs and suppliers	TL	192	4
	USD	-	100.000
	EUR	2.284.000	2.000.000
b) Guarantee notes given for short-term and long-term bank borrowings	TL	16.355	29.400
c) Other:	TL	686	802

Other

As of December 31, 2008 the Group has USD 2.903 million of export commitments to be realized before June 9, 2009. In connection with these export incentive certificates USD 184 million of the commitments have been realized as of December 31, 2008. (The Group has USD 2.203 million and USD 983 million of export commitments to be realized before December 31, 2008 and January 30, 2008 respectively. In connection with these export incentive certificates USD 885 million and USD 998 million of the commitments have been realized as of December 31, 2007, respectively.)

As of December 31, 2008, the unused letter of credit issued for the purchase of raw materials and supplies amounts to Euro 3.579.642 (December 31, 2007 – Euro 7.081.939). As of December 31, 2008, the unused letter of credit issued for the purchase of fixed assets amounts to Euro 4.547.461 (December 31, 2007 - Euro 8.837.352).

The consolidated subsidiaries KFK and Platform have signed a suretyship agreement which guarantees the payments of long-term bank borrowings amounting to Euro 350 million. Furthermore, the Company has signed a suretyship agreement for the syndication loan amounting to USD 75 million obtained by KFK, wholly owned subsidiary.

The long-term bank borrowing agreement related to the finance of MCV project entitles the Group to comply with certain financial ratios. Such financial ratios are met by the Group as of December 31, 2008.

23. COMMITMENTS

None.

24. EMPLOYEE BENEFITS

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2.173 (in full TL)) (December 31, 2007 - TL 2.030 (in full TL)) per year of employment at the rate of pay applicable at the date of retirement or termination.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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24. EMPLOYEE BENEFITS (continued)

As of January 1, 2009, the retirement pay liability ceiling is increased to TL 2.260 (in full TL).

In the consolidated financial statements, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds in accordance with IAS 19. Assumptions used in the calculations are as follows:

	December 31, 2008	December 31, 2007
Discount rate	6,26%	5,71%
Estimated turnover rate for retirement (%)	99%	99%

Movement in reserve for employee termination benefits for the years ended December 31, 2008 and 2007 is as follows:

	December 31, 2008	December 31, 2007
Balance as of January 1	64.952	53.985
Interest expense	7.794	6.478
Payments	(7.964)	(3.526)
Charge for the period (including actuarial gain/loss)	5.439	8.015
Balance as of December 31	70.221	64.952

25. EMPLOYEE PENSION PLANS

None.

26. OTHER ASSETS AND LIABILITIES

a) Other current assets

	December 31, 2008	December 31, 2007
Prepaid expenses	880	840
VAT deductible	37.086	20.251
Accrued income(*)	74.215	5.173
Advances given	337	1.284
Other	4.782	8.450
	117.300	35.998

(*) TL 72.897 portion of accrued income is related with the accrued income recorded according to the long-term manufacturing agreements which was invoiced by the Company in 2009 for the vehicle orders committed to the Company for 2008 and which have not been ordered.

b) As of December 31, 2008, the Group has other non-current assets amounting to TL 97.035 of which the portion TL 96.933 constitutes fixed asset purchase advances (December 31, 2007 - TL 30.761).

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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26. OTHER ASSETS AND LIABILITIES (continued)

c) Other payables

	December 31, 2008	December 31, 2007
Taxes and funds payable	17.875	25.582
Social securities payable	8.123	7.709
Payable to personnel	7.982	10.546
Other	12.117	1.999
Total	46.097	45.836

27. SHAREHOLDERS' EQUITY

a) Minority interest

None.

b) Share capital/adjustments to share capital and equity investments

Registered capital ceiling of the Company is TL 1.000.000. The Company's historical authorized and issued share capital as of December 31, 2008 and 2007 is TL 500 million (full TL). As of December 31, 2008 and December 31, 2007 it consists of 50 billion shares with TL 0,01 (full TL) par value each. As of December 31, 2008 and 2007, the breakdown of issued share capital of the Company is as follows:

	Share group	December 31, 2008		December 31, 2007	
		Amount (historical TL)	%	Amount (historical TL)	%
Fiat	D	189.280	37,86	189.280	37,86
Koç Holding	A	187.938	37,59	187.938	37,59
Koç Holding companies and Koç family	A	1.342	0,27	1.342	0,27
Other, including publicly traded shares	E	121.440	24,28	121.440	24,28
Total paid in share capital		500.000	100,00	500.000	100,00

The shareholders holding A and D group shares have the privilege to choose the members for Board of Directors and Board of Auditors and also have the privilege of using preemption rights in buying each other's shares. The Group's Articles of Association requires votes of 75% of shareholders during General Assembly resolutions.

c) Legal reserves - retained earnings

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's historical paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the historical paid-in share capital. Under TCC, the legal reserves are not available for distribution unless they exceed 50% of the historical paid-in share capital but may be used to offset losses in the event that historical general reserve is exhausted.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

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27. SHAREHOLDERS' EQUITY (continued)

Listed companies are subject to dividend requirements regulated by the Turkish Capital Market Board as follows:

Based on the CMB Decree 7/242, dated February 25, 2005, if the amount of profit distributions calculated in accordance with the net distributable profit requirements of the CMB does not exceed the statutory net distributable profit the whole amount of distributable profit should be distributed. If it exceeds the statutory net distributable profit, the whole amount of the statutory net distributable profit should be distributed. There will be no profit distribution whether loss of the period is recognized either in the financial statements in accordance with CMB regulations or in the statutory financial statements. Per the resolution of General Assembly Meeting of the companies, the listed companies are free to decide to distribute dividend as full in cash, or distribute dividend as cash or as fully bonus shares to be issued to the shareholders, or partially in cash, partially in bonus shares and to keep the remaining portion in the reserves, or fully keep in the reserve without distribute as cash or bonus shares.

Based on the CMB Decree 2/53 dated January 18, 2007, companies are required to distribute a minimum of 20% of their distributable profits over financial statements prepared in accordance with CMB Accounting Standards. This distributable may be made by either as cash or bonus shares or as a combination of both over the minimum limit of 20% depending on the decisions of the General Assemblies of the companies.

In the calculation of net distributable profit, as long as it is met by the reserves in statutory records, it is decided to enable to calculate profit amount to be distributed taking net income into account in the financial statements that will be prepared and published in accordance with communiqué No: XI-29"Communiqué on Financial Reporting Standards in Capital Markets.

Inflation adjustment to shareholders' equity can only be netted-off against prior years' losses and used as an internal source in capital increase where extraordinary reserves can be netted-off against prior years' loss and used in the distribution of bonus shares and dividends to shareholders.

As decided at the General Assembly meeting held on April 24, 2008, the Group has distributed dividend from 2007 profit amounting to TL 90.000, in cash, after deducting legal reserves.

In accordance with the Communiqué, as of December 31, 2008 and 2007, the details of equity, based on which the dividend will be distributed is as follows:

	December 31, 2008	December 31, 2007
Paid-in share capital	500.000	500.000
Inflation adjustments on equity items	348.382	348.382
Revaluation surplus		
- Revaluation surplus of financial assets	20.926	12.261
Restricted reserves	30.812	16.394
Cumulative gain/(loss) on the hedging	(95.443)	40.585
Retained earnings		
- Extraordinary reserves	33.347	27.909
- Inflation adjustments on legal reserves	-	-
- Retained earnings	105.683	39.720
Net income for the year	175.754	175.819
Total shareholder's equity	1.119.461	1.161.070

Historical value of legal and extraordinary reserves in the statutory financial statements are as follows:

	December 31, 2008	December 31, 2007
Legal reserves	33.714	19.280
Extraordinary reserves	61.492	55.765
Total	95.206	75.045

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27. SHAREHOLDERS' EQUITY (continued)

Dividends distributed during year based on previous year's net income per statutory financial statements	90.000	60.075
Dividend paid per share (kuruş)	0,18	0,12

The Company's share capital is fully paid, and consists of 50.000.000.000 shares with TL 0,01 par value each. The Company does not have any privileged share.

28. SALES AND COST OF SALES

a) Net sales

	December 31, 2008	December 31, 2007
Export sales	3.309.772	2.037.627
Domestic sales	1.356.819	1.534.689
Other income from operational activities	131.435	86.625
Total	4.798.026	3.658.941

The amount of sales discounts is TL 217.460 (December 31, 2007 - TL 384.338).

b) Cost of sales

	December 31, 2008	December 31, 2007
Direct material expense	3.350.089	2.508.124
Direct labor expense	91.520	77.731
Depreciation and amortization expense	169.282	104.899
Other production expenses	198.289	167.538
Total cost of production	3.809.180	2.858.292
Change in work-in-process	12.154	(33.676)
Change in finished goods	12.830	(23.764)
Cost of merchandise sold	349.667	411.368
Cost of other sales	47.958	31.664
Total	4.231.789	3.243.884

c) Other income from operational activities

	December 31, 2008	December 31, 2007
Income from direct material sales	49.650	32.290
Income from mould sales	5.111	-
Income from scrap sales	39.970	22.626
Packaging income	30.555	20.981
Other	6.149	10.728
Total	131.435	86.625

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28. SALES AND COST OF SALES (continued)

d) Production and sales quantities

	Production		Sales	
	January 1 - December 31, 2008	January 1 - December 31, 2007	January 1 - December 31, 2008	January 1 - December 31, 2007
Doblo	104.007	135.241	104.715	134.565
MCV	111.810	10.628	112.016	9.737
Albea	10.553	18.006	10.253	17.943
Palio – Palio Van	2.331	4.501	2.429	4.493
Grande Punto (*)	-	-	4.944	8.319
CKD unassembled	20.592	17.352	20.592	17.352
Bird Series	-	-	-	97
SKD	111	3.618	15	3.768
Marea	-	-	-	1
Ducato (*)	-	-	2.331	4.374
Alfa Romeo (*)	-	-	298	653
Panda (*)	-	-	60	111
Sedici (*)	-	-	66	219
Idea (*)	-	-	-	3
Linea	17.932	23.147	18.231	22.485
Ferrari (*)	-	-	16	28
Maserati (*)	-	-	17	28
Lancia (*)	-	-	131	80
Scudo (*)	-	-	502	166
Bravo (*)	-	-	1.116	-
Stilo (*)	-	-	-	3
Fiat 500 (*)	-	-	106	-
Punto (*)	-	-	4	-
Strada (*)	-	-	1	-
Total	267.336	212.493	277.843	224.425

(*) Imported vehicles.

29. RESEARCH AND DEVELOPMENT EXPENSES, SELLING, MARKETING AND DISTRIBUTION EXPENSES, GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2008	December 31, 2007
Selling and marketing expenses	173.800	172.835
General and administrative expenses	113.163	100.154
Research and development expenses(*)	12.324	9.967
Total	299.287	282.956

(*) Total amount of research and development expenses made by the Company in 2008 is TL 300.723 (December 31, 2007 – TL 203.351) and TL 288.399 portion is capitalized. Remaining portion of R&D expenses amounting to TL 12.324 is recognized as expense.

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29. RESEARCH AND DEVELOPMENT EXPENSES, SELLING, MARKETING AND DISTRIBUTION EXPENSES, GENERAL AND ADMINISTRATIVE EXPENSES (continued)

a) Selling and marketing expenses

	December 31, 2008	December 31, 2007
Warranty expenses	2.577	7.958
Personnel expenses	32.803	31.135
Royalty expenses	8.018	11.391
Advertisement expenses	34.226	31.424
Shipment and insurance expenses	30.085	22.644
Packaging expenses	9.200	11.463
Sales commission expenses	19.435	11.594
Exhibition-fair expenses	8.213	6.585
Sales research development expenses	3.749	3.644
Sales sponsorship expenses	769	8.783
Other selling and marketing expenses	24.725	26.214
Total	173.800	172.835

b) General and administrative expenses

	December 31, 2008	December 31, 2007
Personnel expenses	41.895	41.053
Depreciation and amortization expenses	15.392	13.630
Services obtained from third parties	19.150	13.413
Advertisement and sponsorship expenses	8.617	7.619
Duties, taxes and levies	4.463	3.157
Information technologies expenses	9.305	8.540
Insurance expenses	4.570	3.575
Other general and administrative expenses	9.771	9.167
Total	113.163	100.154

30. EXPENSES AS TO NATURE

a) Depreciation and amortization expenses

	December 31, 2008	December 31, 2007
Cost of production	169.282	104.899
General and administrative expenses	15.392	13.630
Research and development expenses	5.501	3.721
Idle capacity expenses	20.463	-
Total	210.638	122.250

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30. EXPENSES AS TO NATURE (continued)

b) Personnel expenses

	December 31, 2008	December 31, 2007
Wages and salaries	265.578	259.789
Labor expenses charged by subcontractors	1.333	1.523
Other social expenses	28.684	21.490
Total	295.595	282.802

31. OTHER OPERATING INCOME / EXPENSE

a) Other operating income and gains

	December 31, 2008	December 31, 2007
Incentive income	11.037	7.235
Rent income	217	893
Other	15.763	24.285
Total	27.017	32.413

b) Other operating expenses and losses

	December 31, 2008	December 31, 2007
Idle capacity expense (*)	34.587	-
Severance and termination pay expense (**)	10.619	-
Unused vacation pay	1.276	-
Loss on sale of fixed assets	260	665
Previous period expense	1.746	724
Other expenses	2.129	892
Total	50.617	2.281

(*) Resulted from the suspension of production activities by the Company in 2008 and TL 20.463 portion of total amount consists of depreciation expenses.

(**) Represents indemnity reserve for those employees who are either laid off or who quit working for the Company by getting entitled to pension in 2009.

32. FINANCIAL INCOME

	December 31, 2008	December 31, 2007
Foreign exchange gain	262.266	59.121
Interest income	59.645	62.536
Total financial income	321.911	121.657

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33. FINANCIAL EXPENSE

	December 31, 2008	December 31, 2007
Foreign exchange loss	(296.687)	(52.713)
Interest expense	(52.399)	(22.017)
Total financial expenses	(349.086)	(74.730)

34. ASSETS HELD FOR SALE AND DISCONTINUING OPERATIONS

None.

35. TAX ASSETS AND LIABILITIES

a) General

The Group is subject to taxation in accordance with the tax regulation and the legislation effective in Turkey.

In Turkey, the corporation tax rate from January 1, 2006 onwards is 20%. Platform, the subsidiary of the Group, is exempt from the corporate tax due to its nature of establishment until the year 2013. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Effective from April 24, 2003, investment allowances provides a deduction from the corporate tax base of 40% of the purchase price of purchases of the brand-new fixed assets having economic useful life and exceeding TL 10.000 and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 is taxed at 19,8% (withholding tax) unless they are converted to new type at companies' will. Investment allowances could be carried forward indefinitely before the new investment allowance application which has been effective from January 1, 2006. With the new law enacted, effective from January 1, 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to December 31, 2005 will be able to deduct such amounts from corporate income until the end of December 31, 2008; however, the corporate tax rate will be 30% for these companies. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 will be subject to investment incentive until the end of December 31, 2008. The Company has chosen the option of using available investment allowance incentives until December 31, 2008 and accordingly corporate tax rate is 30%.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

For the year ended December 31, 2008 and 2007, the analysis of the tax expense in the income statement is as follows:

	January 1 - December 31, 2008	January 1 - December 31, 2007
Current tax charge	-	(4.473)
Deferred tax charge	(44.065) (*)	(33.423)
	(44.065)	(37.896)

(*) TL 23.813 portion of the related amount which is accounted under equity in connection with cash flow hedge is the tax effect of exchange losses subject to allowance from tax base in statutory records and reflected in the deferred tax charge.

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35. TAX ASSETS AND LIABILITIES (continued)

The numeric reconciliation between tax income and the accounting results multiplied by the applicable tax rate as of December 31, 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
Net income before provision for taxes	219.819	213.715
Income tax charge at effective tax rate	(43.963)	(64.115)
Effect of investment allowance	-	19.830
Deferred tax effect of unused research and development allowance	44.482	-
Effect of unused investment allowance	(33.906)	-
Tax effect of exchange gain/losses accounted under equity in connection with cash flow hedge	(23.813)	-
Effect of research and development incentive and zero withholding tax application	761	6.288
Other	12.374	101
	(44.065)	(37.896)

a) Deferred tax assets and liabilities

The breakdown of temporary differences and the resulting deferred tax assets as of December 31, 2008 and 2007, using the effective tax rates were as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Employee termination benefits	(82.012)	(64.952)	16.402	12.990
Warranty provision	(35.169)	(50.840)	7.034	15.252
Temporary differences arising between tax and book bases of property, plant and equipment and intangibles and inventories	505.321	421.074	(100.800)	(76.121)
Cumulative gain on the hedging	(37.554)	(34.335)	7.511	8.111
Cumulative gain on KFK swap transactions	29.105	(20.922)	(5.821)	4.184
Deferred income	(50.439)	(50.497)	10.088	10.693
Unused investment allowances (Note 21)	-	(332.407)	-	33.906
Unused R&D allowances (Note 21)	(222.409)	-	44.482	-
Unused tax loss carryforward of KFK	(47.578)	-	9.516	-
Other temporary differences	2.870	(1.639)	(574)	436
Deferred tax asset/(liability), net			(12.162)	9.451

The movement of the deferred tax asset/ (liability) balance during the period is as follows:

	December 31, 2008	December 31, 2007
Deferred tax asset at beginning of the year	9.451	37.656
Deferred tax charge for the year	(20.252)	(33.423)
Amount accounted under equity	(1.361)	5.218
Deferred tax asset/(liability) at December 31	(12.162)	9.451

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36. EARNINGS PER SHARE

Earnings per share are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned. In 2008 and 2007, the weighted average number of shares outstanding is 50.000.000.000 and as of December 31, 2008 and 2007 earnings per share is Kuruş 0,35.

37. RELATED PARTY DISCLOSURES

Related party balances

Due from related parties	December 31, 2008	December 31, 2007
Fiat	434.687	357.666
Otokoç A.Ş. (Otokoç - Subsidiary of Koç Holding A.Ş.) (*)	29.427	75.396
Other	211	416
	464.325	433.478
Less: discount	(726)	(2.387)
Total	463.599	431.091

(*) Formerly Birmot A.Ş.

Due to related parties	December 31, 2008	December 31, 2007
Fiat	364.600	439.339
Mako Elektrik Sanayi ve Ticaret A.Ş. (Mako - Associate company of Fiat)	9.939	19.246
Comau S.p.A. (Associate company of Fiat)	992	8.786
Elasis Societa Consortile per Azioni - (Elasis -Associate company of Fiat)	-	3.062
Other	20.950	21.251
	396.481	491.684
Less: discount	(522)	(2.453)
Total	395.959	489.231

Related party transactions	December 31, 2008	December 31, 2007
Sales		
Fiat	2.327.139	1.716.968
Otokoç	328.440	486.219
Other	2.311	9.708
Total	2.657.890	2.212.895

Domestic purchases

Mako	95.987	91.658
Powertrain Mekanik San. ve Tic. Ltd. Şti. - Associate company of Fiat	-	33.811
Zer Merkezi Hizmetler ve Ticaret A.Ş. (formerly Beko Ticaret Anonim Şirketi) (*)	40.700	38.625
Entek - Participation of Tofaş	28.173	19.276
Ram Sigorta Aracılık A.Ş. (*)	5.550	5.616
Palmira Turizm Ticaret A.Ş. (*)	5.058	8.790
Arçelik A.Ş. (*)	5.726	553
Other	22.027	24.134
Total	203.221	222.463

(*) Subsidiary of Koç Holding A.Ş.

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37. RELATED PARTY DISCLOSURES (continued)

Foreign Purchases	January 1 - December 31, 2008		January 1 - December 31, 2007	
	Materials and services	Tangible and intangible assets	Materials and services	Tangible and intangible assets
Fiat	1.612.311	-	1.512.803	-
Comau S.p.A.	3.285	-	7.914	23.200
Elasis	490	-	3.131	-
Kofisa S.A.	-	-	-	1.334
Other	297.874	-	14.495	-
Total	1.913.960	-	1.538.343	24.534

Interest income from related parties, for the year ended December 31, 2008 amounts to TL 24.841 (December 31, 2007 - TL 48.248).

Salaries and similar benefits paid to the top management (23 people) (December 31, 2007 - 26 people) in 2008 amounts to TL 9.585 (December 31, 2007 - TL 13.436).

Furthermore, as of December 31, 2008, wholly owned subsidiary KFK has entered into swap transactions with Yapı ve Kredi Bankası A.Ş. amounting to USD 25.000.000 which has a maturity on April 2009. It is accounted under other financial liabilities with a carrying amount of TL 3.888 (December 31, 2007-TL 5.654).

38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's principal financial instruments are cash and cash equivalents and bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risks, liquidity risk, foreign currency risk and credit risk. The Group management reviews and agrees policies for managing each of the risks as summarized below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of the counterparties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit screening procedures and the Group also obtains collaterals from customers when appropriate. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Trade receivables are evaluated by management based on their past experiences and current economic condition, and are presented in financial statements net of provision for doubtful receivables (see Note 10).

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38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Amounts carried in the balance sheet reflect maximum credit risk of the Group.

Current year	Trade receivables					
	Related party	Other party	Other receivables	Bank deposits (Note 6)	Derivative instruments	Receivables from finance sector operations
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	463.599	124.201	1.323	216.128	229.235	321.324
- Maximum risk secured by guarantee	(30.000)	(247.735)	-	-	-	-
A. Net book value of financial assets neither overdue nor impaired	352.967	112.334	1.323	216.128	-	307.904
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	5.202	-	-	-	-
C. Net book value of assets overdue but not impaired	110.436	6.665	-	-	-	4.462
-Under guarantee*	-	4.505	-	-	-	4.462
D. Net book value of impaired assets	196	-	-	-	-	8.958
- Overdue (gross book value)	1.081	-	-	-	-	15.528
- Impairment (-) (Note 10)	(885)	-	-	-	-	(6.570)
- Net value under guarantee	196	-	-	-	-	3.926
- Not overdue (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value under guarantee	-	-	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-	229.235	-

Current year	Trade receivables					
	Related party	Other party	Other receivables	Bank deposits (Note 6)	Derivative instruments	Receivables from finance sector operations
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	431.091	253.026	1.948	437.850	135.330	234.768
- Maximum risk secured by guarantee (2)	(75.187)	(268.611)	-	-	-	-
A. Net book value of financial assets neither overdue nor impaired	359.423	239.850	1.948	437.850	-	231.544
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-	-	-
C. Net book value of assets overdue but not impaired	71.666	13.176	-	-	-	1.907
-Under guarantee*	-	-	-	-	-	1.907
D. Net book value of impaired assets	-	-	-	-	-	-
- Overdue (gross book value)	2	-	-	-	-	1.317
- Impairment (-) (Note 10)	486	-	-	-	-	5.907
- Net value under guarantee	(484)	-	-	-	-	(4.590)
- Not overdue (gross book value)	2	-	-	-	-	3.121
- Impairment (-)	-	-	-	-	-	-
- Net value under guarantee	-	-	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-	135.330	-

(1) Guarantees received and factors increasing the loan reliability are not considered when determining this amount.

(2) Guarantees consist of guarantee notes, guarantee checks, mortgages and car pledges received from customers.

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38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Current year	Trade receivables
1- 30 days past due	74.199
1- 3 months past due	19.469
3- 12 months past due	25.070
1- 5 years past due	3.021
Over 5 years past due	-
Amount secured with guarantee	8.967
Prior year	Trade receivables
1- 30 days past due	53.640
1- 3 months past due	4.596
3- 12 months past due	25.637
1- 5 years past due	2.878
Over 5 years past due	-
Amount secured with guarantee	2.535

The amount of past due receivables of the Group is TL 121.759 in the current year (December 31, 2007 – TL 86.751). TL 106.890 portion of this amount is receivable from the Group's related party, Fiat (December 31, 2007 – TL 69.305). As of December 31, 2008, the Group's payable to Fiat amounts to TL 364.600 (December 31, 2007 – TL 439.339).

Foreign currency risk

The Group is exposed to foreign exchange risk arising from the ownership of foreign currency denominated assets and liabilities with sales or purchase commitments. The policy of the Group is to compare every foreign currency type for the probable sales or purchases in the future.

As explained in detail in Note 8, according to the manufacturing agreements signed by the Group, the repayment obligations related to loans obtained for Doble is guaranteed by Fiat and for Minicargo by Fiat and PSA through future purchases. Accordingly, the Group's exposure to foreign exchange rate and interest rate fluctuations is undertaken by Fiat and PSA.

Current year	Table of foreign currency position			
	TL equivalent (functional currency)	USD	EURO	Other
1. Trade receivables	458.837	-	214.330	-
2a. Monetary financial assets (including cash, bank accounts)	127.620	316	59.390	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	75.047	35	35.030	-
4. Current assets (1+2+3)	661.504	351	308.750	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	4.531	46	2.084	-
8. Non-current assets (5+6+7)	4.531	46	2.084	-
9. Total assets(4+8)	666.035	397	310.834	-
10. Trade payables	(499.742)	(728)	(232.846)	(164)
11. Financial liabilities	(372.947)	(151.993)	(66.839)	-
12a. Monetary other liabilities	-	-	-	-
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(872.689)	(152.721)	(299.685)	(164)
14. Trade payables	-	-	-	-
15. Financial liabilities	(901.233)	-	(420.980)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(901.233)	-	(420.980)	-
18. Total liabilities (13+17)	(1.773.922)	(152.721)	(720.665)	(164)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	229.235	151.580	-	-
19a. Total hedged asset amount	-	-	-	-
19b. Total hedged liability amount	(229.235)	(151.580)	-	-
20. Net foreign currency asset/(liability) position (9+18+19)	(878.652)(*)	(744)	(409.831)	(164)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	(1.187.465)	(152.405)	(446.945)	(164)
22. Total fair value of financial instruments used for foreign currency hedging	229.235	151.580	-	-
23. Export	3.345.816	9.555	1.746.410	-
24. Import	2.101.752	1.206	1.107.052	202

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Prior year	Table of foreign currency position			
	TL equivalent (functional currency)	USD	EURO	Other
1. Trade receivables	462.812	2.705	268.776	-
2a. Monetary financial assets (including cash, bank accounts)	127.487	937	73.907	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	341	-	199	-
4. Current assets (1+2+3)	590.640	3.642	342.882	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	2.931	-	1.714	-
8. Non-current assets (5+6+7)	2.931	-	1.714	-
9. Total assets(4+8)	593.571	3.642	344.596	-
10. Trade payables	(560.424)	(224)	(327.511)	(53)
11. Financial liabilities	(130.848)	-	(76.510)	-
12a. Monetary other liabilities	(348)	(13)	(194)	-
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(691.620)	(237)	(404.215)	(53)
14. Trade payables	-	-	-	-
15. Financial liabilities	(498.178)	-	(291.298)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(498.178)	-	(291.298)	-
18. Total liabilities (13+17)	(1.189.798)	(237)	(695.513)	(53)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	135.330	116.193	-	-
19a. Total hedged asset amount	-	-	-	-
19b. Total hedged liability amount	(135.330)	(116.193)	-	-
20. Net foreign currency asset/(liability) position (9+18+19)	(460.897)(*)	119.598	(350.917)	(53)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	(599.499)	3.405	(352.830)	(53)
22. Total fair value of financial instruments used for foreign currency hedging	135.330	116.193	-	-
23. Export	2.060.250	57.576	1.121.371	-
24. Import	1.730.233	1.364	972.499	7

(*) As explained in Note 8, the Group's exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in Euro are undertaken by Fiat and PSA. Accordingly, net foreign currency exposure of the Group excluding such borrowings as of December 31, 2008 is TL 42.284 foreign currency liability position (December 31, 2007 - TL 85.202, foreign currency asset position).

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38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and other exchange rates, with all other variables held constant, on the Company's income before tax as of December 31, 2008 and 2007:

Exchange rate sensitivity analysis table				
Current year				
	Profit/loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>				
1- USD net asset/liability	(23.036)	23.036	-	-
2- Amount hedged for USD risk (-)	22.923	(22.923)	-	-
3- USD net effect (1+2)	113	(113)	-	-
<i>In case 10% appreciation of EUR against TL:</i>				
4- EUR net asset/liability	(84.430)	84.430	83.637	(83.637)
5- Amount hedged for EUR risk (-)	83.637	(83.637)	-	-
6- EUR net effect (4+5)	(793)	793	83.637	(83.637)
<i>In case 10% appreciation of other exchange rates against TL:</i>				
7- Other exchange rates net asset/liability 16	16	(16)	-	-
8- Amount hedged for other exchange rates risk (-)	-	-	-	-
9- Other exchange rates net effect (7+8)	16	(16)	-	-
Total (3+6+9)	(664)	664	83.637	(83.637)

Exchange rate sensitivity analysis table				
Current year				
	Profit/loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>				
1- USD net asset/liability	27.463	(27.463)	-	-
2- Amount hedged for USD risk (-)	(13.533)	13.533	-	-
3- USD net effect (1+2)	13.930	(13.930)	-	-
<i>In case 10% appreciation of EUR against TL:</i>				
4- EUR net asset/liability	60.461	(60.461)	(54.610)	54.610
5- Amount hedged for EUR risk (-)	(54.610)	54.610	-	-
6- EUR net effect (4+5)	5.851	(5.851)	(54.610)	54.610
<i>In case 10% appreciation of other exchange rates against TL:</i>				
7- Other exchange rates net asset/liability 16	5	(5)	-	-
8- Amount hedged for other exchange rates risk (-)	-	-	-	-
9- Other exchange rates net effect (7+8)	5	(5)	-	-
Total (3+6+9)	19.786	(19.786)	(54.610)	54.610

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk stems from the probability of an impact of rate changes on financial accounts. The Group is exposed to interest rate risk due to maturity mismatch or differences of the assets and liabilities that are re-priced or matured in a specific period. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

As of December 31, 2008 and 2007, the effect of +/- 0,5% change in interest rates of the interest rates sensitive financial instruments in balance sheet is as follows:

	January 1- December 31 2008	January 1- December 31 2008
Effect to net income before provision for taxes	0,5% (493)	(0,5)% 493
	January 1- December 31 2008	January 1- December 31 2008
Effect to net income before provision for taxes	0,5% (351)	(0,5)% 351

No direct effect in shareholders' equity without effecting income/loss.

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The risk is mitigated by matching the cash in and out flow volume supported by committed lending limits from qualified credit institutions.

The breakdown of financial assets and liabilities according to their maturities is disclosed considering from balance sheet date to due date period. Financial assets and liabilities that have no certain due date are classified in over 1 year column.

	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	1.364.363	1.388.070	81.403	383.168	557.510	365.989
Commercial paper issuance	74.455	90.000	-	40.000	-	50.000
Trade payables	754.005	754.999	690.871	64.128	-	-
Expected maturities						
Other current liabilities	46.097	46.097	46.097	-	-	-
Expected maturities (or maturities per agreement)						
Derivative financial assets (net)	29.105	33.391	6.426	26.965	-	-
Derivative cash inflows	29.105	226.845	37.807	189.038	-	-
Derivative cash outflows	-	(193.454)	(31.381)	(162.073)	-	-

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38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Prior year

	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	716.041	839.869	29.385	145.480	462.187	202.817
Trade payables	908.320	912.542	794.934	117.608	-	-
Expected maturities						
Non-derivative financial liabilities						
Other current liabilities	45.836	45.836	45.836	-	-	-
Expected maturities (or maturities per agreement)						
Derivative financial liabilities (net)	(20.922)	(15.433)	-	(6.105)	(9.328)	-
Derivative cash inflows	-	133.940	-	-	133.940	-
Derivative cash outflows	(20.922)	(149.373)	-	(6.105)	(143.268)	-

Capital management policy

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes amendments to it, in light of changes in economic conditions.

The Group has the power to organize the dividend payments in order to regulate and keep the capital structure. There is no change in policy, target or processes of the Group as of December 31, 2008.

39. FINANCIAL INSTRUMENTS (FAIR VALUE EXPLANATIONS AND DISCLOSURES WITHIN THE FRAMEWORK OF HEDGE ACCOUNTING)

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Financial assets -- Monetary assets for which the fair value approximates carrying value, balances denominated in foreign currencies are translated at year-end exchange rates. The fair values of financial assets (except short-term consumer financing loans) carried at cost are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The fair values are calculated by discounting the future cash flows of consumer financing loans with the current interest rate which is monthly 2,10% (December 31, 2007 - 1,4%).

	December 31, 2008		December 31, 2007	
	Carrying value	Fair value	Carrying value	Fair value
Consumer financing loans	322.693	308.721	234.768	238.318

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39. FINANCIAL INSTRUMENTS (FAIR VALUE EXPLANATIONS AND DISCLOSURES WITHIN THE FRAMEWORK OF HEDGE ACCOUNTING) (continued)

Financial liabilities -- Monetary liabilities for which fair value approximates carrying value; balances denominated in foreign currencies are translated at the year end exchange rates. Trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Management considers an effective cash flow hedge relationship between foreign currency originated long term loans and the realized and forecasted sales (items subject to be hedged) of light commercial vehicles (Doblo and Mini Cargo (MCV)). Effectiveness of hedge relationship has been determined by the agreements made between the Company and Fiat and Peugeot Citroen Automobiles S.A. (PSA). It is vastly probable to cover long term loan liabilities by the planned sales of MCV to Fiat and PSA starting from 2008 until December, 2015. Additionally, it is also probable to cover the carrying amount of long term loan liabilities for Doblo by the present sales and planned sales to Fiat until the end of 2008.

Furthermore, wholly owned subsidiary, KFK, enters into swap transactions in order to diminish exposure to foreign currency position and interest rate risk and to manage foreign currency liquidity. Swap transactions, which are considered as cash flow hedge instruments in accordance with International Financial Reporting Standards (IFRS) are recognized in the income statements in accordance with hedge accounting. KFK values its swap transactions based on fair value and net profit or loss is recognized under cumulative gain on the hedging account under shareholders' equity.

40. SUBSEQUENT EVENTS

Since continuation of global crisis, constriction of export order and domestic sales has diminished production units, the Company decreased number of daily shifts from three to two and labor contract of 657 blue-collar employees were terminated. Further, 241 blue-collar employees decided to leave voluntarily. Due to the slow down in the automotive sector, the Company suspended the production activities between the dates February 2-9, 2009 and yearly paid vacation has been used by the personnel.

Based on the General Assembly dated February 13, 2009, decommission and completion of close down processes of Mekatro, subsidiary of the Company, was decided unanimously.

Following the balance sheet date, in accordance with BOD decision no.79 dated January 13, 2009, wholly owned subsidiary KFK has used the portion amounting to USD 50.000.000 in total within the loan that the related party has obtained with 1 year term, arrangement option for the interest payments with 3 or 6 months periods, representative bank fees and liabilities that will arise due to other costs belonging to KFK, sub-title of the debtor with annual interest rate conditions of Libor + 2,5%. Financial service cost will be paid annually to the related party amounting to 0,5% of the obtained loan.

41. OTHER MATTERS WHICH ARE SIGNIFICANT TO THE FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE FINANCIAL STATEMENTS

None.