

(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası  
Anonim Şirketi**

**Interim consolidated financial statements  
September 30, 2008**

(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

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(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Consolidated balance sheet**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

	Notes	Current period September 30, 2008	Prior period December 31, 2007
<b>Assets</b>			
<b>Current assets</b>		<b>1.501.141</b>	<b>1.553.691</b>
Cash and cash equivalents	6	249.565	437.893
Financial investments	7	51.844	-
Trade receivables			
- Trade receivables from related parties	37	321.036	431.091
- Other trade receivables	10	288.818	253.026
Short-term consumer financing loans	12	174.045	110.861
Other receivables	11	1.724	1.948
Inventories	13	363.734	282.874
Biological assets	14	-	-
Other current assets	26	50.375	35.998
<b>Non-current assets</b>		<b>1.973.155</b>	<b>1.622.565</b>
Trade receivables			
- Trade receivables from related parties	37	-	-
- Other trade receivables	10	-	-
Long-term consumer financing loans	12	163.716	123.907
Other receivables	11	-	-
Financial investments			
- Available for sale financial investments	7	33.325	23.994
- Other financial assets	7	-	-
Investments accounted under equity method	16	-	-
Biological assets	14	-	-
Investment properties	17	-	-
Property, plant and equipment	18	1.086.288	981.079
Intangibles	19	579.009	453.373
Goodwill	20	-	-
Deferred tax asset	35	-	9.451
Other non-current assets	26	110.817	30.761
<b>Total assets</b>		<b>3.474.296</b>	<b>3.176.256</b>

The accompanying policies and explanatory notes on pages 6 through 46 form and integral part of the consolidated financial statements.

(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Consolidated balance sheet**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

	Notes	Current period September 30, 2008	Prior period December 31, 2007
<b>Liabilities</b>			
<b>Current liabilities</b>		<b>1.302.288</b>	<b>1.204.955</b>
Financial liabilities	8	<b>365.066</b>	174.865
Other financial liabilities	9	<b>16.110</b>	20.922
Trade payables			
- Trade payables to related parties	37	<b>361.261</b>	489.231
- Other trade payables	10	<b>407.398</b>	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	<b>126.814</b>	55.012
Other current liabilities	26	<b>25.639</b>	45.836
<b>Non – current liabilities</b>		<b>970.191</b>	<b>810.231</b>
Financial liabilities	8	<b>772.796</b>	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	<b>91.944</b>	80.275
Provisions	11	-	-
Reserve for retirement pay	24	<b>73.329</b>	64.952
Deferred tax liability	35	<b>32.122</b>	-
Other non – current liabilities		-	-
<b>Shareholders' equity</b>		<b>1.201.817</b>	<b>1.161.070</b>
<b>Parent company's equity</b>			
Paid – in share capital	27	<b>500.000</b>	500.000
Inflation adjustment on equity items	27	<b>348.382</b>	348.382
Adjustments to share capital and equity instruments (-)		-	-
Share premium		-	-
Revaluation surplus of financial assets	7	<b>21.592</b>	12.261
Foreign currency translation adjustment		-	-
Cumulative gain/(loss) on the hedging		<b>(5.272)</b>	40.585
Restricted reserves	27	<b>30.812</b>	16.394
Retained earnings	27	<b>139.030</b>	67.629
Net income for the period		<b>167.273</b>	175.819
Minority interest		-	-
<b>Total liabilities and shareholders' equity</b>		<b>3.474.296</b>	<b>3.176.256</b>

The accompanying policies and explanatory notes on pages 6 through 46 form and integral part of the consolidated financial statements.

(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Consolidated income statement  
For the period ended September 30, 2008  
Currency – Thousands of New Turkish Liras (YTL))**

	Notes	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
<b>Continuing operations</b>					
Net sales	28	3.890.349	1.102.613	2.484.400	833.464
Cost of sales (-)	28	(3.453.886)	(971.423)	(2.198.154)	(732.653)
Gross profit/(loss) from business activities		436.463	131.190	286.246	100.811
Interest, fee, premium, commission and other income		42.639	15.946	13.859	6.876
Interest, fee, premium, commission and other expense (-)		(38.374)	(14.935)	(12.289)	(6.599)
Gross profit/(loss) from finance sector operations		4.265	1.011	1.570	277
<b>Gross profit/(loss)</b>		<b>440.728</b>	<b>132.201</b>	<b>287.816</b>	<b>101.088</b>
Selling, marketing and distribution expense (-)	29	(131.449)	(47.491)	(117.627)	(37.321)
General and administrative expense (-)	29	(81.215)	(27.780)	(67.508)	(20.194)
Research and development expense (-)	29	(15.389)	(5.322)	(6.518)	(2.051)
Other operating income	31	19.241	3.919	14.948	7.152
Other operating expense (-)	31	(11.204)	(7.608)	(2.167)	(884)
<b>Operating profit/(loss)</b>		<b>220.712</b>	<b>47.919</b>	<b>108.944</b>	<b>47.790</b>
Shares of profit/(loss) from investments valuated with equity method		-	-	-	-
Non-operating financial income	32	116.349	(75.690)	118.164	69.185
Non-operating financial expense (-)	33	(137.896)	58.993	(82.822)	(57.012)
<b>Net income / (expense) before provision for taxes from continuing operations</b>		<b>199.165</b>	<b>31.222</b>	<b>144.286</b>	<b>59.963</b>
<b>Tax income/(expense) for continuing operations</b>					
- Tax income/(expense) for the period	35	-	-	(3.380)	(2.892)
- Deferred tax income/(expense)	35	(31.892)	(16.685)	(18.554)	(8.101)
<b>Continuing operations net income/(expense)</b>		<b>167.273</b>	<b>14.537</b>	<b>122.352</b>	<b>48.970</b>
<b>Discontinuing operations</b>					
<b>Net income / (expense) after provisions for taxes from discontinuing operations</b>		-	-	-	-
<b>Net income/(expense)</b>		<b>167.273</b>	<b>14.537</b>	<b>122.352</b>	<b>48.970</b>
<b>Distribution of net income/(expense) for the period</b>					
Minority interest		-	-	-	-
Shares of parent company		-	-	-	-
<b>Earnings per share</b>	36	<b>0,33</b>	<b>0,03</b>	0,24	0,10
<b>Earnings per share from continuing operations</b>					

The accompanying policies and explanatory notes on pages 6 through 46 form and integral part of the consolidated financial statements.

(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Consolidated statements of changes in equity**

**For the period ended September 30, 2008**

**Currency – Thousands of New Turkish Liras (YTL))**

	Paid – in share capital	Inflation adjustment on equity items	Restricted reserves	Revaluation surplus of financial assets	Cumulative gain/(loss) on the hedging	Accumulated profits / (loss)	Net income for the period	Total shareholders' equity
<b>December 31, 2006</b>	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 (*)	-	-	-	-	34.461	-	-	34.461
Dividend distribution	-	-	-	-	-	(60.075)	-	(60.075)
Net profit for the period	-	-	-	-	-	-	122.352	122.352
<b>September 30, 2007</b>	500.000	348.382	16.394	12.261	47.716	67.629	122.352	1.114.734
<b>December 31, 2007</b>	<b>500.000</b>	<b>348.382</b>	<b>16.394</b>	<b>12.261</b>	<b>40.585</b>	<b>67.629</b>	<b>175.819</b>	<b>1.161.070</b>
Transfers	-	-	-	-	-	175.819	(175.819)	-
Transfers to restricted reserves	-	-	14.418	-	-	(14.418)	-	-
Loss on the hedging (*)	-	-	-	-	(45.857)	-	-	(45.857)
Revaluation surplus of financial assets	-	-	-	9.331	-	-	-	9.331
Dividend distribution	-	-	-	-	-	(90.000)	-	(90.000)
Net profit for the period	-	-	-	-	-	-	167.273	167.273
<b>September 30, 2008</b>	<b>500.000</b>	<b>348.382</b>	<b>30.812</b>	<b>21.592</b>	<b>(5.272)</b>	<b>139.030</b>	<b>167.273</b>	<b>1.201.817</b>

(\*) Net of deferred tax amount.

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(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Consolidated cash flow statement  
For the period ended September 30, 2008  
Currency – Thousands of New Turkish Liras (YTL))**

	September 30, 2008	September 30, 2007
<b>Cash flows from operating activities</b>		
Net income before provision for taxes	199.165	144.286
<b>Reconciliation between net income before taxation and cash generated from operating activities</b>		
Depreciation and amortization	153.205	84.367
Interest expense	113.390	29.548
Interest income	(52.502)	(49.893)
Provision for employee termination benefits	12.306	12.422
(Gain)/loss on sale of property, plant and equipment	(485)	(364)
Warranty provision	1.997	9.523
<b>Operating income before working capital changes</b>	<b>427.076</b>	<b>229.889</b>
<b>Net working capital changes in :</b>		
Trade receivables and trade receivables from related parties	74.263	(5.776)
Inventories	(80.860)	(132.172)
Other current/non-current assets and other receivables	(94.440)	15.560
Short/long term consumer financing loans	(102.993)	(120.125)
Trade payables and trade payables to related parties	(139.661)	(119.023)
Other current liabilities	56.988	85.530
Other non-current liabilities	11.669	31.741
Employee termination benefits paid	(3.929)	(2.829)
Warranty payments	(12.192)	(12.335)
<b>Net cash provided by/(used in) operating activities</b>	<b>135.921</b>	<b>(29.540)</b>
<b>Cash flows from investing activities</b>		
Interest received	53.752	49.893
Purchase of property, plant, equipment and intangibles	(386.922)	(326.803)
Proceeds from sale of property, plant and equipment and intangibles	3.358	1.472
Deposits with maturities over three months	(51.613)	-
<b>Net cash used in investing activities</b>	<b>(381.425)</b>	<b>(275.438)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(154.502)	(16.067)
Dividend paid	(90.000)	(60.075)
Bank loans received	680.153	823.150
Bank loans repaid	(378.475)	(541.675)
<b>Net cash provided by/(used in) financing activities</b>	<b>57.176</b>	<b>205.333</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(188.328)</b>	<b>(99.645)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>437.893</b>	<b>518.364</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>249.565</b>	<b>418.719</b>
<b>Taxes paid</b>	<b>9.190</b>	<b>4.235</b>

The accompanying policies and explanatory notes on pages 6 through 46 form and integral part of the consolidated financial statements.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**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. In accordance with these license agreements the Company do not assemble, produce, import or sell any car other than Fiat cars. The Company has started to produce and sell Mini Cargo vehicles as of October 2007, whose intellectual and industrial property rights belong to itself. 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 September 30, 2008 and December 31, 2007, consolidated subsidiaries of the Company are as follows:

Name of the company	Operating area	Percentage of ownership	
		September 30, 2008	December 31, 2007
Koç Fiat Kredi Tüketici Finansmanı A.Ş.(KFK)	Consumer financing	99,9%	99,9%
Mekatro Araştırma Geliştirme A.Ş.	Research and development	97,0%	97,0%
Platform Araştırma Geliştirme Tasarım ve Tic. A.Ş. (Platform)	Research and development	99,0%	99,0%
Fer Mas Oto Ticaret A.Ş.	Trading of automobile and spare parts	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:

	September 30, 2008	September 30, 2007
Blue-collar	7.533	4.893
White-collar	1.327	1.224
Total number of personnel	8.860	6.117

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies**

**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. The financial statements of current period 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.

The consolidated financial statements were authorized for issue on October 30, 2008 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 YTL.

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 September 30, 2008 and December 31, 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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

**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 YTL 1.948 is reclassified to other receivables; current portion of long term consumer financing loans amounting to YTL 80.996 is reclassified from long term consumer financing loans to short term consumer financing loans; advances given in inventories amounting to YTL 1.284 is reclassified to other current assets; property, plant and equipment amounting to YTL 30.723 is reclassified to other non-current assets; extraordinary reserves amounting to YTL 27.909 is reclassified to retained earnings. Other income from operational activities amounting to YTL 53.221 and service income amounting to YTL 1.170 for the period ended September 30, 2007 is reclassified to sales income and financial income amounting to YTL 1.570 is reclassified to interest, fee, premium, commission and other income.

**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. 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.

These new standards do not have any effect on the consolidated financial statements since they are not related with the Group’s operations.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

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.

*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).

An entity that grants loyalty award credits shall allocate some of the proceeds of the initial sale to the award credits as a liability. In effect, the award is accounted for as a separate component of the sale transaction. The amount of proceeds allocated to the award credits is measured by reference to their fair value. The entity shall recognize the deferred portion of the proceeds as revenue only when it has fulfilled its obligations. 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).

In order to increase the effectiveness of information in the financial statements, IAS 1 was revised. The main changes from the previous version are to require that an entity must present all non-owner changes in equity 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. The Group will make necessary changes related to presentation of financial statements in 2009.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

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

Standard classifies 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 entity 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. 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.

**Summary of material accounting policies**

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand and cash at banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts and that are subject to an insignificant risk of change in value.

***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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

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 September 30, 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*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments 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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (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. Bad debts are written off when identified.

***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.

***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.

***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. 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

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

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.

***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.

***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.

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

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 Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (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.

***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 YTL 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 September 30, 2008, the Group capitalized YTL 20.607 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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

*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.

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.

***Employee benefits***

*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.

*Defined contribution plans*

The Group is obliged to pay premiums to Social Security Agency 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. In the first nine months of 2008, the Group had social security premium expenses amounting to YTL 35.974 (September 30, 2007 - YTL 25.196).

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

***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.

***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.

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.

***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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

***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 end of 2008.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (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 YTL loan portfolio with long term foreign currency funds obtained from international markets. KFK changes the foreign currency liquidity obtained from the international markets to YTL liquidity with long term swap transactions. Therefore these long term fixed interest rate loan portfolio are funded by YTL 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 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 Company 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 Company that gives it significant influence over the Company; or
  - (iii) has joint control over the Company;
- (b) the party is an associate of the Company;
- (c) the party is a joint venture in which the Company is a venturer;
- (d) the party is member of the key management personnel of the Company 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 Company, or of an entity that is a related party of the Company.

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

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**2. Summary of significant accounting policies (continued)**

**Government incentives and grants**

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.

**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**

	<b>September 30, 2008</b>	December 31, 2007
Cash on hand	<b>58</b>	43
Cash at banks		
- demand deposits	<b>70.569</b>	52.901
- time deposits	<b>179.005</b>	385.109
Payment orders	<b>(67)</b>	(160)
<b>Total</b>	<b>249.565</b>	437.893

The breakdown of time deposits is as follows:

	<b>September 30, 2008</b>		December 31, 2007	
	<b>Amount (YTL equivalent)</b>	<b>Effective interest rate per annum (%)</b>	Amount (YTL equivalent)	Effective interest rate per annum (%)
Denominated in YTL	<b>61.526</b>	<b>16,8 – 21,5</b>	302.182	12 - 19,2
Denominated in USD	-	-	1.043	5
Denominated in EUR	<b>117.479</b>	<b>4,2 – 5,9</b>	81.884	3,4 - 5
<b>Total</b>	<b>179.005</b>		385.109	

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**6. Cash and cash equivalents (continued)**

As of September 30, 2008, the maturities of time deposits vary between one day and one month (December 31, 2007 - between one day and one month). The time deposits bear fixed interest rates.

As of September 30, 2008, the cash at banks comprise deposits amounting to YTL 176.895 (December 31, 2007 – YTL 317.091) which are deposited at a bank which is related party of the Group.

**7. Financial investments**

**a) Short - term financial investments**

As of September 30, 2008 the amount of short – term financial investment is YTL 51.844 of which the portion YTL 51.613 represents deposits with maturities over three months and the portion YTL 231 represents the positive fair value of swap transactions amounting to USD 5 million held by subsidiary of the Group, KFK ( December 31, 2007 – None).

**b) Available for sale financial investments**

As of September 30, 2008 and December 31, 2007, the available for sale financial assets of the Group comprised the following:

	Percentage of interest	<b>September 30, 2008</b>	December 31, 2007
Entek Elektrik Üretimi A.Ş. (Entek)	13,33%	<b>33.325</b>	23.994
		<b>33.325</b>	23.994

As of September 30, 2008, the participation has been reflected at its assessed fair value of YTL 33.325, which is derived from the appraisal study dated July 17, 2008. The total valuation difference of YTL 21.592 is presented under the “revaluation surplus of financial investments” account under shareholders’ equity. The appraisal study is based on the 5 year balance sheet and income statement projections prepared by Entek management and the fair value of Entek is calculated using the discounted cash flow method. The Group has not foreseen any change in the fair value of Entek as of September 30, 2008.

## Tofaş Türk Otomobil Fabrikası Anonim Şirketi

## Notes to the consolidated financial statements (continued)

As of September 30, 2008

(Currency – Thousands of New Turkish Liras (YTL))

## 8. Financial liabilities

## a) Short-term financial liabilities

	September 30, 2008			December 31, 2007		
	Amount in thousands (original currency)	Amount (YTL equivalent)	Effective interest rate per annum (%)	Amount in thousands (original currency)	Amount (YTL equivalent)	Effective interest rate per annum (%)
Short-term bank borrowings						
Denominated in YTL	-	10.803	19,53	-	46.741	13 – 17,05
Denominated in EUR	4.100	7.371	5,19 – 7,85	2.100	3.591	4,84 – 5,57
Denominated in USD(*)	15.565	19.170	4,38 – 5,38	-	-	-
Accrued interest		1.306			705	
Current portion of long-term bank borrowings		326.416			123.828	
<b>Total</b>		<b>365.066</b>			<b>174.865</b>	

## b) Long-term financial liabilities

	September 30, 2008			December 31, 2007		
	Amount in thousands (original currency)	Amount (YTL equivalent)	Effective interest rate per annum (%)	Amount in thousands (original currency)	Amount (YTL equivalent)	Effective interest rate per annum (%)
Long-term bank borrowings						
Denominated in EUR	453.063	814.517	6 months Euribor-0,073%	361.993	619.080	6 months Euribor-0,073%
Denominated in USD(*)	139.767	172.137	6 months Euribor+1,34%	115.000	133.941	6 months Euribor+1,34%
Denominated in YTL(*)		58.000	3,72 – 5,38	-	29.465	5,80 – 6,52
Accrued interest		22.901	16,40 – 23,85		6.346	16,40 – 21,20
Commercial paper (**)		31.657			-	
Less: Current portion of long-term bank borrowings		(326.416)			(123.828)	
<b>Total</b>		<b>772.796</b>			<b>665.004</b>	

(\*) Total short-term bank borrowings which are denominated in USD and total long-term bank borrowings which are denominated in YTL and USD comprise bank borrowings obtained by KFK, consolidated subsidiary, to finance consumer financing loans.

(\*\*) As of September 30, 2008, commercial paper amounting to YTL 31.657, with nominal value amounting to YTL 40.000 and 540 days maturity, has been issued by KFK.

YTL 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 September 30, 2008 and December 31, 2007 is as follows:

	September 30, 2008	December 31, 2007
1 - 5 years	418.013	462.187
5 years and more	354.783	202.817
	<b>772.796</b>	<b>665.004</b>

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**8. Financial liabilities (continued)**

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 September 30, 2008 the remaining balance of the loan is YTL 533.015 (equivalent of 296.482 Euro 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.

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 YTL 251.692 (equivalent of Euro 140.000 thousand) has been obtained as of September 30, 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.

**9. Other financial liabilities**

KFK funds its long term fixed interest rate YTL consumer financing loan portfolio with long term variable interest bearing foreign currency funds obtained from international markets. KFK changes the foreign currency liquidity obtained from the international markets to YTL liquidity with long term swap transactions. Therefore these long term fixed interest rate loan portfolio are funded by YTL 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 70 million loans by thirteen interest rate swaps (December 31, 2007 – seven interest rate swaps) amounting to; USD 25 million, USD 40 million, seven 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 September 30, 2008 amounts to YTL 16.110 (December 31, 2007 – YTL 20.922) and is accounted under the financial statements as "Other financial liabilities".

Unrealized profit accounted by KFK under equity within the period regarding to swaps designated as cash flow hedging instrument is YTL 4.820, net amount after deduction of deferred tax asset is YTL 3.856 and the amount which deducted from equity and taken to profit/loss for the period is YTL 985. The aforementioned amount is included in financial expense amounting to YTL 1.152 and in tax expense amounting to YTL 194.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**10. Trade receivables and payables**

**a) Trade receivables**

	<b>September 30, 2008</b>	December 31, 2007
Trade receivables	<b>289.907</b>	254.014
Doubtful trade receivables	<b>488</b>	486
	<b>290.395</b>	254.500
Less: Provision for doubtful receivables	<b>(486)</b>	(484)
Less: Discount	<b>(1.091)</b>	(990)
<b>Total</b>	<b>288.818</b>	253.026

As of September 30, 2008, the letter of guarantees, guarantee notes and direct debit system limit (\*) obtained as collateral for trade receivables amounting to YTL 127.514, YTL 11.893 and YTL 228.983, respectively (December 31, 2007 - letter of guarantees amounting to YTL 112.280 and guarantee notes amounting to YTL 10.670 and direct debit system limit amounting to YTL 220.830).

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

As of September 30, 2008 the maturity profiles of trade receivables are summarized as follows:

	Neither past due nor impaired	Up to 1 month	1 to 2 months	Overdue but not doubtful receivables			Total
				2 to 3 months	3 to 4 months	Over 4 months	
<b>September 30, 2008</b>	<b>251.663</b>	<b>34.246</b>	<b>3.121</b>	-	<b>304</b>	<b>573</b>	<b>289.907</b>
December 31, 2007	243.956	9.605	89	81	-	283	254.014

**b) Trade payables**

	<b>September 30, 2008</b>	December 31, 2007
Trade payables	<b>408.510</b>	420.858
Less: Discount	<b>(1.112)</b>	(1.769)
<b>Total</b>	<b>407.398</b>	419.089

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**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**11. Other receivables and payables**

**a) Short-term provisions**

	<b>September 30, 2008</b>	December 31, 2007
Warranty provision	<b>40.645</b>	50.840
Provision for sales discount	<b>23.359</b>	157
Provision for price differences	<b>27.567</b>	46
Sales expense provision	<b>5.178</b>	-
Royalty expense provision	<b>6.210</b>	-
Personnel wage provision	<b>9.073</b>	-
Services from third parties	<b>2.905</b>	4
Legal and consultancy expense provision	<b>1.640</b>	1.200
Other	<b>10.237</b>	2.765
<b>Total</b>	<b>126.814</b>	55.012

The warranty provision movement for the periods ended September 30, 2008 and 2007 is as follows:

	<b>September 30, 2008</b>	September 30, 2007
Balance as of January 1	<b>50.840</b>	59.902
Utilized	<b>(12.192)</b>	(12.335)
Provision for the period	<b>1.997</b>	9.523
<b>September 30</b>	<b>40.645</b>	57.090

**b) Long-term provisions**

None.

**c) Other receivables**

As of September 30, 2008, other receivables consist of deposits and guarantees given, amounts to YTL 1.724 (December 31, 2007 – YTL 1.948).

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**12. Receivables from finance sector operations**

	<b>September 30, 2008</b>	December 31, 2007
Short-term consumer financing loans	<b>168.664</b>	109.544
Non-performing loans	<b>9.870</b>	5.907
	<b>178.534</b>	115.451
Provision for loan impairment	<b>(4.489)</b>	(4.590)
<b>Total</b>	<b>174.045</b>	110.861
Long-term consumer financing loans	<b>163.716</b>	123.907
<b>Total</b>	<b>163.716</b>	123.907

As of September 30, 2008, YTL loans originated by the Group bear monthly fixed interest rates ranging between 0,89% - 2,05% per month (December 31, 2007 - 1,20% - 2,05%) and for foreign currency indexed loan between 0,6% - 0,89% (December 31, 2007 - 0,6% - 0,72%).

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

<b>Years</b>	<b>September 30, 2008</b>	December 31, 2007
1 to 2 years	<b>103.613</b>	73.300
2 to 3 years	<b>47.561</b>	39.088
3 years and more	<b>12.542</b>	11.519
<b>Total</b>	<b>163.716</b>	123.907

Movements in the allowance for loan impairment for September 30, 2008 and 2007 are as follows:

	<b>September 30, 2008</b>	September 30, 2007
January 1,	<b>4.590</b>	2.859
Charge for the period	<b>468</b>	1.291
Recoveries from loans under follow-up	<b>(569)</b>	(159)
<b>September 30</b>	<b>4.489</b>	3.991

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.

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**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**13. Inventories**

	<b>September 30, 2008</b>	December 31, 2007
Raw materials, net of reserve for obsolescence of YTL 1.976 (December 31, 2007 - YTL 1.069)	<b>141.610</b>	96.108
Work-in-process	<b>36.922</b>	53.503
Finished goods, net of reserve for obsolescence of YTL 235 (December 31, 2007 - YTL 445)	<b>42.536</b>	36.266
Spare parts	<b>27.868</b>	21.380
Imported vehicles, net of reserve for obsolescence of YTL 335 (December 31, 2007 - YTL 265)	<b>32.401</b>	30.639
Goods-in transit	<b>82.397</b>	44.978
<b>Total</b>	<b>363.734</b>	282.874

**14. Biological assets**

None.

**15. Assets related with construction projects in progress**

None.

**16. Investments accounted under equity method**

None.

**17. Investment properties**

None.

(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**18. Property, plant and equipment**

During the period ended September 30, 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	-	-	-	37	3.557	2	208.931	212.527
Disposals	(707)	(5.719)	-	(12.436)	(2.566)	-	-	(21.428)
Transfers	4.393	20.839	44.253	21.298	-	-	(90.783)	-
Accumulated depreciation of disposals	259	5.253	-	12.062	1.652	-	-	19.226
Depreciation charge for the period	(4.015)	(23.013)	(65.289)	(9.445)	(2.745)	(609)	-	(105.116)
<b>At September 30, 2008, net of accumulated depreciation</b>	<b>130.753</b>	<b>384.085</b>	<b>267.574</b>	<b>72.626</b>	<b>9.984</b>	<b>5.456</b>	<b>215.810</b>	<b>1.086.288</b>
<b>At September 30, 2008</b>								
Cost	299.702	1.194.476	1.280.640	235.828	32.131	8.015	215.810	3.266.602
Accumulated depreciation	(168.949)	(810.391)	(1.013.066)	(163.202)	(22.147)	(2.559)	-	(2.180.314)
<b>At September 30, 2008, net carrying amount</b>	<b>130.753</b>	<b>384.085</b>	<b>267.574</b>	<b>72.626</b>	<b>9.984</b>	<b>5.456</b>	<b>215.810</b>	<b>1.086.288</b>

(Convenience translation of financial statements originally issued in Turkish)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**18. Property, plant and equipment (continued)**

During the period ended September 30, 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	-	-	-	72	4.762	5	180.419	185.258
Disposals	-	(22.139)	(7.667)	(11.506)	(1.575)	-	-	(42.887)
Transfers	2.335	49.913	75.050	15.659	-	-	(142.957)	-
Accumulated depreciation of disposals	-	22.069	7.667	11.134	909	-	-	41.779
Depreciation charge for the period	(3.447)	(16.846)	(45.508)	(5.898)	(2.122)	(649)	-	(74.470)
<b>At September 30, 2007, net of accumulated depreciation</b>	<b>110.230</b>	<b>179.302</b>	<b>164.175</b>	<b>40.517</b>	<b>8.392</b>	<b>5.422</b>	<b>282.631</b>	<b>790.669</b>
<b>At September 30, 2007</b>								
Cost	274.166	970.171	1.093.477	203.670	30.267	7.233	282.631	2.861.615
Accumulated depreciation	(163.936)	(790.869)	(929.302)	(163.153)	(21.875)	(1.811)	-	(2.070.946)
<b>At September 30, 2007, net carrying amount</b>	<b>110.230</b>	<b>179.302</b>	<b>164.175</b>	<b>40.517</b>	<b>8.392</b>	<b>5.422</b>	<b>282.631</b>	<b>790.669</b>

**Restrictions on assets**

As of September 30, 2008 and 2007, there are no restrictions on assets.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**19. Intangibles**

During the period ended September 30, 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	<b>453.373</b>
Additions	171.524	2.871	<b>174.395</b>
Disposals	-	(2.501)	<b>(2.501)</b>
Accumulated amortization of disposals	-	1.831	<b>1.831</b>
Amortization charge for the period	(47.346)	(743)	<b>(48.089)</b>
<b>At September 30, 2008, net of accumulated amortization</b>	<b>565.767</b>	<b>13.242</b>	<b>579.009</b>
<b>At September 30, 2008</b>			
Cost	768.615	28.396	<b>797.011</b>
Accumulated amortization	(202.848)	(15.154)	<b>(218.002)</b>
<b>At September 30, 2008, net carrying amount</b>	<b>565.767</b>	<b>13.242</b>	<b>579.009</b>

	License fee and development costs	Others	Total
At December 31, 2006, net of accumulated amortization	307.398	6.622	314.020
Additions	140.317	1.228	141.545
Amortization charge for the period	(9.076)	(821)	(9.897)
<b>At September 30, 2007, net of accumulated amortization</b>	<b>438.639</b>	<b>7.029</b>	<b>445.668</b>
<b>At September 30, 2007</b>			
Cost	586.855	23.029	609.884
Accumulated amortization	(148.216)	(16.000)	(164.216)
<b>At September 30, 2007, net carrying amount</b>	<b>438.639</b>	<b>7.029</b>	<b>445.668</b>

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 YTL 186.282, which are not started to be amortized and which are not determined as ready to be used.

**20. Goodwill**

None.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**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 on machinery and equipment to be imported;
- ii) Investment allowances of 40% and 200% on the approved capital expenditures and investments;
- iii) 100% VAT exemption on local capital expenditures.

As of September 30, 2008 the amount of unused investment allowances is YTL 2.024.948 (September 30, 2007 - YTL 1.636.147). Based on the projections prepared by the Group management, the investment allowance to be utilized until December 31, 2008 is estimated as YTL 148.860.

As of September 30, 2008 government incentives of the Group amounting to YTL 91.944 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 – YTL 80.275).

**22. Provisions, contingent assets and liabilities**

**Litigations**

As of September 30, 2008 the total amount of outstanding legal claims brought against the Group is YTL 2.910 (December 31, 2007 - YTL 1.955). The Group has reflected a reserve amounting to YTL 1.640 (December 31, 2007 - YTL 1.200) in the financial statements.

**Bank letters of guarantee**

The breakdown of letters of guarantee and guarantee notes given by the Group as of September 30, 2008 and December 31, 2007 is as follows:

		<b>September 30, 2008</b>	December 31, 2007
a) Letters of guarantee given to banks, customs and suppliers	YTL	<b>227</b>	4
	USD	-	100.000
	EUR	<b>2.819.000</b>	2.000.000
b) Guarantee notes given for short-term and long-term bank borrowings	YTL	-	29.400
c) Other	YTL	<b>637</b>	802

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**22. Provisions, contingent assets and liabilities (continued)**

**Other**

As of September 30, 2008 the Group has USD 2.585 million and USD 2.903 million of export commitments to be realized before December 6, 2008 and June 9, 2009, respectively. In connection with these export incentive certificates USD 2.671 million and USD 12 million of the commitments have been realized as of September 30, 2008, respectively. (The Group has USD 2.203 million and USD 983 million of export commitments to be realized before September 30, 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 September 30, 2008, the unused letter of credit issued for the purchase of raw materials and supplies amounts to Euro 9.030.405 (December 31, 2007 – Euro 7.081.939). As of September 30, 2008, the unused letter of credit issued for the purchase of fixed assets amounts to Euro 12.828.591 (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.

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 September 30, 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 YTL 2.173 (in full YTL)) (December 31, 2007 - YTL 2.030 (in full YTL)) per year of employment at the rate of pay applicable at the date of retirement or termination.

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 :

	<b>September 30, 2008</b>	December 31, 2007
Discount rate	<b>5,71%</b>	5,71%
Estimated turnover rate for retirement (%)	<b>99%</b>	99%

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**24. Employee benefits (continued)**

Movement in reserve for employee termination benefits for the periods ended September 30, 2008 and 2007 is as follows:

	<b>September 30, 2008</b>	September 30, 2007
Balance as of January 1	<b>64.952</b>	53.985
Interest expense	<b>5.846</b>	4.859
Payments	<b>(3.929)</b>	(2.829)
Charge for the period (including actuarial gain/loss)	<b>6.460</b>	7.563
Balance as of September 30	<b>73.329</b>	63.578

**25. Employee pension plans**

None.

**26. Other assets and liabilities**

**a) Other current assets**

	<b>September 30, 2008</b>	December 31, 2007
Prepaid expenses	<b>1.956</b>	840
VAT deductible	<b>13.977</b>	20.251
Accrued income	<b>22.081</b>	5.173
Advances given	<b>5.740</b>	1.284
Other	<b>6.621</b>	8.450
	<b>50.375</b>	35.998

**b)** As of September 30, 2008, the Group has other non-current assets amounting to YTL 110.817 of which the portion YTL 110.779 constitutes fixed asset purchase advances. (December 31, 2007 - YTL 30.761).

**c) Other payables**

	<b>September 30, 2008</b>	December 31, 2007
Taxes and funds payable	<b>6.045</b>	25.582
Social securities payable	<b>14.568</b>	7.709
Payable to personnel	<b>4.415</b>	10.546
Other	<b>611</b>	1.999
Total	<b>25.639</b>	45.836

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**27. Shareholders' equity**

**a) Minority interest**

None.

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

Registered capital ceiling of the Company is YTL 1.000.000. The Company's historical authorized and issued share capital as of September 30, 2008 and December 31, 2007 is YTL 500 million (full YTL). As of September 30, 2008 and December 31, 2007 it consists of 50 billion shares with YTL 0,01 (full YTL) par value each. As of September 30, 2008 and December 31, 2007, the breakdown of issued share capital of the Company is as follows:

	Share group	September 30, 2008		December 31, 2007	
		Amount (historical YTL)	%	Amount (historical YTL)	%
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
<b>Total paid in share capital</b>		<b>500.000</b>	<b>100,00</b>	<b>500.000</b>	<b>100,00</b>

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 Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

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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, the profit of the subsidiaries, the participations under common control and the participations which are existing in the consolidated financial statements are not considered if the general assemblies of such companies did not decide to distribute profits.

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 YTL 90.000, in cash, after deducting legal reserves.

**28. Sales and cost of sales**

**a) Net sales**

	<b>September 30, 2008 cumulative</b>	<b>September 30, 2008 third quarter</b>	September 30, 2007 cumulative	September 30, 2007 third quarter
Export sales	<b>2.666.411</b>	<b>720.998</b>	1.416.775	430.289
Domestic sales	<b>1.115.144</b>	<b>347.946</b>	1.014.404	384.738
Other income from operational activities	<b>108.794</b>	<b>33.669</b>	53.221	18.437
<b>Total</b>	<b>3.890.349</b>	<b>1.102.613</b>	2.484.400	833.464

The amount of sales discounts is YTL 193.394 (September 30, 2007 - YTL 231.643).

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi****Notes to the consolidated financial statements (continued)****As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**28. Sales and cost of sales (continued)****b) Cost of sales**

	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
Direct material expense	2.764.119	724.891	1.684.431	547.564
Direct labor expense	73.851	20.465	55.657	18.981
Depreciation and amortization expense	129.528	42.293	71.116	25.783
Other production expenses	159.262	49.503	117.799	42.701
Total cost of production	3.126.760	837.152	1.929.003	635.029
Change in work-in-process	14.341	(7.111)	(1.104)	(2.667)
Change in finished goods	(5.868)	28.565	(31.179)	(14.012)
Cost of merchandise sold	277.530	104.794	280.867	107.064
Cost of other sales	41.123	8.023	20.567	7.239
Total	3.453.886	971.423	2.198.154	732.653

**c) Other income from operational activities**

	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
Income from direct material sales	41.867	8.937	20.766	6.752
Income from mould sales	5.111	5.111	-	-
Income from scrap sales	35.846	10.042	14.787	4.763
Packaging income	21.943	7.435	13.805	5.294
Other	4.027	2.144	3.863	1.628
Total	108.794	33.669	53.221	18.437

**d) Production and sales quantities**

	Production		Sales	
	January 1 - September 30, 2008	January 1 - September 30, 2007	January 1 - September 30, 2008	January 1 - September 30, 2007
Doblo	89.456	97.429	89.898	96.889
MCV	92.786	379	92.583	-
Albea	9.143	14.045	8.570	13.246
Palio – Palio Van	2.066	2.834	2.088	2.831
Grande Punto (*)	-	-	4.069	5.341
CKD demonte	16.368	10.440	16.368	10.440
Kuş Serisi	-	-	-	97
SKD	111	3.618	-	3.768
Marea	-	-	-	1
Ducato (*)	-	-	2.052	3.252
Alfa Romeo (*)	-	-	225	374
Panda (*)	-	-	52	70
Sedici (*)	-	-	65	69
Idea(*)	-	-	-	2
Linea	15.942	14.376	15.840	13.267
Ferrari (*)	-	-	13	27
Maserati (*)	-	-	10	14
Lancia (*)	-	-	71	43
Scudo (*)	-	-	438	-
Bravo (*)	-	-	953	-
Stilo (*)	-	-	-	1
Fiat 500(*)	-	-	10	-
Total	225.872	143.121	233.305	149.732

(\*) Imported vehicles.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**29. Research and development expenses, selling, marketing and distribution expenses, general and administrative expenses**

	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
Selling and marketing expenses	131.449	47.491	117.627	37.321
General and administrative expenses	81.215	27.780	67.508	20.194
Research and development expenses	15.389	5.322	6.518	2.051
<b>Total</b>	<b>228.053</b>	<b>80.593</b>	<b>191.653</b>	<b>59.566</b>

**a) Selling and marketing expenses**

	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
Warranty expenses	3.665	(44)	10.422	1.550
Personnel expenses	25.316	8.726	23.439	9.101
Royalty expenses	6.210	1.216	6.848	1.477
Advertisement expenses	23.461	7.722	20.568	8.196
Shipment and insurance expenses	20.526	7.996	14.663	5.228
Packaging expenses	7.699	1.233	7.190	3.235
Sales commission expenses	16.607	12.097	5.335	366
Exhibition-fair expenses	5.125	1.573	3.061	1.028
Sales research development expenses	2.389	865	2.147	353
Sales sponsorship expenses	886	410	6.588	848
Other selling and marketing expenses	19.565	5.697	17.366	5.939
<b>Total</b>	<b>131.449</b>	<b>47.491</b>	<b>117.627</b>	<b>37.321</b>

**b) General and administrative expenses**

	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
Personnel expenses	32.373	10.317	25.956	8.187
Depreciation and amortization expenses	9.292	3.267	10.533	2.150
Services obtained from third parties	12.886	4.723	9.003	2.809
Advertisement and sponsorship expenses	5.930	2.863	4.010	1.419
Duties, taxes and levies	3.639	1.269	1.900	454
Other general and administrative expenses	17.095	5.341	16.106	5.175
<b>Total</b>	<b>81.215</b>	<b>27.780</b>	<b>67.508</b>	<b>20.194</b>

**30. Expenses as to nature**

**a) Depreciation and amortization expenses**

	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
Cost of production	129.528	42.293	71.116	25.783
General and administrative expenses	9.292	3.267	10.533	2.150
Research and development expenses	14.385	6.605	2.718	2.300
<b>Total</b>	<b>153.205</b>	<b>52.165</b>	<b>84.367</b>	<b>30.233</b>

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**30. Expenses as to nature (continued)**

**b) Personnel expenses**

	<b>September 30, 2008 cumulative</b>	<b>September 30, 2008 third quarter</b>	September 30, 2007 cumulative	September 30, 2007 third quarter
Wages and salaries	226.664	69.378	184.037	45.221
Labor expenses charged by subcontractors	989	198	819	58
Other social expenses	20.142	6.886	14.853	5.739
<b>Total</b>	<b>247.795</b>	<b>76.462</b>	199.709	51.018

**31. Other operating income / expense**

**a) Other operating income and gains**

	<b>September 30, 2008 cumulative</b>	<b>September 30, 2008 third quarter</b>	September 30, 2007 cumulative	September 30, 2007 third quarter
Research and development income	8.184	2.759	3.926	711
Gain on sale of fixed assets	485	82	364	187
Rent income	164	52	845	286
Other	10.408	1.026	9.813	5.968
<b>Total</b>	<b>19.241</b>	<b>3.919</b>	14.948	7.152

**b) Other operating expenses and losses**

As of September 30, 2008, the Group has other operating expenses amounting to YTL 11.204 of which the portion YTL 6.916 constitutes idle time expenses, YTL 1.493 constitutes prior year unused vacation pay expenses and YTL 1.515 constitutes prior year price differences (September 30, 2007 - YTL 2.167).

**32. Financial income**

	<b>September 30, 2008 cumulative</b>	<b>September 30, 2008 third quarter</b>	September 30, 2007 cumulative	September 30, 2007 third quarter
Foreign exchange gain	63.847	(88.523)	68.271	55.197
Interest income	52.502	12.833	49.893	13.988
<b>Total financial income</b>	<b>116.349</b>	<b>(75.690)</b>	118.164	69.185

**33. Financial expense**

	<b>September 30, 2008 cumulative</b>	<b>September 30, 2008 third quarter</b>	September 30, 2007 cumulative	September 30, 2007 third quarter
Foreign exchange loss	(24.506)	35.623	(53.274)	(40.041)
Interest expense	(113.390)	23.370	(29.548)	(16.971)
<b>Total financial expenses</b>	<b>(137.896)</b>	<b>58.993</b>	(82.822)	(57.012)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**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 YTL 10.000 and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 are 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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**35. Tax assets and liabilities (continued)**

For the nine months period ended September 30, 2008 and 2007, the analysis of the tax expense in the income statement is as follows:

	January 1 - September 30, 2008	January 1 - September 30, 2007
Current tax charge	-	(3.380)
Deferred tax charge	<b>(31.892)</b>	(18.554)
	<b>(31.892)</b>	(21.934)

The numeric reconciliation between tax income and the accounting results multiplied by the applicable tax rate as of September 30, 2008 and 2007 are as follows:

	September 30, 2008	September 30, 2007
Net income before provision for taxes	<b>199.165</b>	144.286
Income tax charge at effective tax rate	<b>(59.749)</b>	(43.286)
Effect of research and development incentive and zero withholding tax application	<b>42.614</b>	38.623
Other	<b>(14.757)</b>	(17.271)
	<b>(31.892)</b>	(21.934)

**b) Deferred tax assets and liabilities**

The breakdown of temporary differences and the resulting deferred tax assets as of September 30, 2008 and December 31, 2007, using the effective tax rates were as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
Employee termination benefits	<b>(74.737)</b>	(64.952)	<b>14.947</b>	12.990
Warranty provision	<b>(40.645)</b>	(50.840)	<b>8.549</b>	15.252
Temporary differences arising between tax and book bases of property, plant and equipment and intangibles and inventories	<b>436.158</b>	421.074	<b>(84.787)</b>	(76.121)
Cumulative gain on the hedging	<b>5.600</b>	(34.335)	<b>(818)</b>	8.111
Cumulative gain on KFK swap transactions	<b>(15.735)</b>	(20.922)	<b>3.147</b>	4.184
Deferred income	<b>(52.148)</b>	(50.497)	<b>10.595</b>	10.693
Unused investment allowances (Note 21)	<b>(148.860)</b>	(332.407)	<b>15.184</b>	33.906
Unused tax loss carryforward of KFK	<b>(76)</b>	-	<b>15</b>	-
Other temporary differences	<b>(3.307)</b>	(1.639)	<b>1.046</b>	436
<b>Deferred tax asset/(liability), net</b>			<b>(32.122)</b>	9.451

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**35. Tax assets and liabilities (continued)**

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

	<b>September 30, 2008</b>	September 30, 2007
Deferred tax asset at beginning of the period	<b>9.451</b>	37.656
Deferred tax charge for the period	<b>(31.892)</b>	(18.554)
Amount accounted under equity	<b>(9.681)</b>	5.790
<b>Deferred tax liability at September 30</b>	<b>(32.122)</b>	24.892

**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. For the first nine months period in 2008 and 2007, the weighted average number of shares outstanding is 50.000.000.000 and as of September 30, 2008 and 2007 earnings per share is Yeni Kuruş 0,33 and Yeni Kuruş 0,24, respectively.

**37. Related party disclosures**

**Related party balances**

	<b>September 30, 2008</b>	December 31, 2007
<b>Due from related parties</b>		
Fiat	<b>275.835</b>	357.666
Otokoç A.Ş. (Otokoç - Subsidiary of Koç Holding A.Ş.) (*)	<b>45.924</b>	75.396
Other	<b>482</b>	416
	<b>322.241</b>	433.478
Less: Discount	<b>(1.205)</b>	(2.387)
<b>Total</b>	<b>321.036</b>	431.091

(\*) Formerly Birmot A.Ş.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

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**37. Related party disclosures (continued)**

	September 30, 2008	December 31, 2007
<b>Due to related parties</b>		
Fiat	<b>341.557</b>	439.339
Mako Elektrik Sanayi ve Ticaret A.Ş. (Mako - Associate company of Fiat)	<b>12.241</b>	19.246
Comau S.p.A. (Associate company of Fiat)	<b>746</b>	8.786
Elasis Societa Consortile per Azioni – (Elasis –Associate company of Fiat)	-	3.062
Other	<b>7.702</b>	21.251
	<b>362.246</b>	491.684
Less: Discount	<b>(985)</b>	(2.453)
<b>Total</b>	<b>361.261</b>	489.231

	September 30, 2008 cumulative	September 30, 2008 third quarter	September 30, 2007 cumulative	September 30, 2007 third quarter
<b>Related party transactions</b>				
<b>Sales</b>				
Fiat	<b>1.806.728</b>	<b>479.972</b>	1.228.898	379.876
Otokoç	<b>319.818</b>	<b>95.494</b>	316.447	117.401
Other	<b>1.738</b>	<b>316</b>	9.052	5.942
<b>Total</b>	<b>2.128.284</b>	<b>575.782</b>	1.554.397	503.219
<b>Domestic purchases</b>				
Mako	<b>78.944</b>	<b>21.482</b>	64.936	17.476
Powertrain Mekanik San. ve Tic. Ltd. Şti. - Associate company of Fiat	-	-	33.636	3.969
Zer Merkezi Hizmetler ve Ticaret A.Ş. (formerly Beko Ticaret Anonim Şirketi) (*)	<b>23.841</b>	<b>11.361</b>	23.022	7.630
Entek - Participation of Tofaş	<b>25.574</b>	<b>10.293</b>	13.273	4.126
Ram Sigorta Aracılık A.Ş. (*)	<b>4.969</b>	<b>498</b>	4.670	309
Palmira Turizm Ticaret A.Ş. (*)	<b>5.049</b>	<b>119</b>	5.509	1.108
Arçelik A.Ş. (*)	<b>5.725</b>	<b>2</b>	641	12
Other	<b>26.220</b>	<b>2.104</b>	23.052	13.898
<b>Total</b>	<b>170.322</b>	<b>45.859</b>	168.739	48.528

(\*) Subsidiary of Koç Holding A.Ş.

	January 1- September 30, 2008		January 1-September 30, 2007	
<b>Foreign purchases</b>	Materials and services	Tangible and intangible assets	Materials and services	Tangible and intangible assets
Fiat	<b>1.278.215</b>	-	958.081	3.345
Comau S.p.A.	<b>3.086</b>	-	121	23.232
Other	<b>17.693</b>	-	10.742	6.191
<b>Total</b>	<b>1.298.994</b>	-	968.944	32.768

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

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**37. Related party disclosures (continued)**

Interest income from related parties, during the nine months period ended September 30, 2008 amounts to YTL 19.885 (September 30, 2007 - YTL 34.730).

Salaries and similar benefits paid to the top management (23 people) (September 30, 2007 - 25 people) in the first nine months period of 2008 amounts to YTL 4.965 (September 30, 2007 - YTL 5.776).

Furthermore, as of September 30, 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 March 2009. It is accounted under other financial liabilities with a carrying amount of YTL 4.451 (December 31, 2007-YTL 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.

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

***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 Doblo is guaranteed by Fiat and for Mini Cargo 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 Otomobil Fabrikası Anonim Şirketi

## Notes to the consolidated financial statements (continued)

As of September 30, 2008

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## 38. Nature and level of risks arising from financial instruments (continued)

Overall;

	September 30, 2008 (YTL equivalent)	December 31, 2007 (YTL equivalent)
Total foreign currency trade assets	428.138	463.153
Total foreign currency financial assets	226.548	130.418
Total foreign currency trade liabilities	523.264	560.772
Total foreign currency financial liabilities	833.762	629.026
Total export	2.639.820	2.060.250
Total import	1.705.342	1.923.997
Total assets	3.474.296	3.176.256
Total shareholders' equity	1.201.817	1.161.070
Total amount of hedging-purpose instruments	822.752	629.026

Detailed foreign currency position;

The foreign currency position of the Group as of September 30, 2008 and December 31, 2007 is as follows:

	September 30, 2008					
	USD (thousand)	YTL equivalent	Euro (thousand)	YTL equivalent	Other foreign currencies YTL equivalent	Total YTL equivalent
Cash and cash equivalents	132	163	94.803	170.437	-	170.600
Trade receivables (including due from related parties)	66	82	237.844	427.595	-	427.677
Other current assets	38	47	230	414	-	461
Long-term consumer financing loans	336	414	2.181	3.921	-	4.335
Short-term financial investments	-	-	28.709	51.613	-	51.613
<b>Total YTL equivalent of foreign currency assets</b>		<b>706</b>		<b>653.980</b>	<b>-</b>	<b>654.686</b>
Financial liabilities	-	-	463.768	833.762	-	833.762
Trade payables (including due to related parties)	287	353	286.262	514.642	142	515.137
Other liabilities	-	-	4.520	8.127	-	8.127
<b>Total YTL equivalent of foreign currency liabilities</b>		<b>353</b>		<b>1.356.531</b>	<b>142</b>	<b>1.357.026</b>
<b>Net foreign currency position</b>		<b>353</b>		<b>(702.551)</b>	<b>(142)</b>	<b>(702.340)(*)</b>

  

	December 31, 2007					
	USD (thousand)	YTL equivalent	Euro (thousand)	YTL equivalent	Other foreign currencies YTL equivalent	Total YTL equivalent
Cash and cash equivalents	937	1.091	73.907	126.396	-	127.487
Trade receivables (including due from related parties)	2.705	3.151	268.776	459.661	-	462.812
Other current assets	-	-	199	341	-	341
Long-term consumer financing loans	-	-	1.714	2.931	-	2.931
<b>Total YTL equivalent of foreign currency assets</b>		<b>4.242</b>		<b>589.329</b>	<b>-</b>	<b>593.571</b>
Financial liabilities	-	-	367.808	629.026	-	629.026
Trade payables (including due to related parties)	224	261	327.511	560.110	53	560.424
Other liabilities	13	16	194	332	-	348
<b>Total YTL equivalent of foreign currency liabilities</b>		<b>277</b>		<b>1.189.468</b>	<b>53</b>	<b>1.189.798</b>
<b>Net foreign currency position</b>		<b>3.965</b>		<b>(600.139)</b>	<b>(53)</b>	<b>(596.227) (*)</b>

(\*) 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 September 30, 2008 is YTL 120.412 foreign currency asset position (December 31, 2007 - YTL 32.799, foreign currency asset position).

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

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**38. Nature and level of risks arising from financial instruments (continued)**

Accordingly, as of September 30, 2008, the effect of 1% increase in foreign exchange rate is increase in net income before provision for taxes for the period amounting to YTL 1.204.

**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 September 30, 2008, the effect of 0,5% increase in interest rates of the loans which bear variable interest rates is decrease in net income before provision for taxes for the period amounting to YTL 982.

**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.

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<b>Assets as of September 30, 2008</b>						
Cash and cash equivalents	249.565	-	-	-	-	249.565
Consumer financing loans	21.779	31.266	41.551	79.449	163.716	337.761
Trade receivables and trade receivables from related parties (*)	296.702	314.119	1.329	-	-	612.150
Financial investments	-	231	51.613	-	33.325	85.169
<b>Total assets</b>	<b>568.046</b>	<b>345.616</b>	<b>94.493</b>	<b>79.449</b>	<b>197.041</b>	<b>1.284.645</b>
<b>Liabilities as of September 30, 2008</b>						
Financial liabilities (*)	2.116	64.767	23.221	282.263	819.410	1.191.777
Other financial liabilities	16.110	-	-	-	-	16.110
Trade payables and trade payables to related parties (*)	404.967	329.573	36.216	-	-	770.756
<b>Total liabilities</b>	<b>423.193</b>	<b>394.340</b>	<b>59.437</b>	<b>282.263</b>	<b>819.410</b>	<b>1.978.643</b>
<b>Net liquidity risk</b>	<b>144.853</b>	<b>(48.724)</b>	<b>35.056</b>	<b>(202.814)</b>	<b>(622.369)</b>	<b>(693.998)</b>

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**38. Nature and level of risks arising from financial instruments (continued)**

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<b>Assets as of December 31, 2007</b>						
Cash and cash equivalents	437.893	-	-	-	-	437.893
Consumer financing loans	1.171	1.216	3.309	24.169	204.903	234.768
Trade receivables and trade receivables from related parties (*)	230.518	458.922	-	-	-	689.440
Financial investments	-	-	-	-	23.994	23.994
<b>Total assets</b>	<b>669.582</b>	<b>460.138</b>	<b>3.309</b>	<b>24.169</b>	<b>228.897</b>	<b>1.386.095</b>
<b>Liabilities as of December 31, 2007</b>						
Financial liabilities (*)	-	29.385	28.000	117.481	665.004	839.870
Other financial liabilities	-	20.922	-	-	-	20.922
Trade payables and trade payables to related parties (*)	455.115	339.818	117.608	-	-	912.541
<b>Total liabilities</b>	<b>455.115</b>	<b>390.125</b>	<b>145.608</b>	<b>117.481</b>	<b>665.004</b>	<b>1.773.333</b>
<b>Net liquidity risk</b>	<b>214.467</b>	<b>70.013</b>	<b>(142.299)</b>	<b>(93.312)</b>	<b>(436.107)</b>	<b>(387.238)</b>

(\*) Undiscounted amounts.

**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 September 30, 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 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 1,68% (December 31, 2007 – 1,4%).

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**Notes to the consolidated financial statements (continued)**

**As of September 30, 2008**

(Currency – Thousands of New Turkish Liras (YTL))

**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**

None.

**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.