

CONVENIENCE TRANSLATION OF FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH -
SEE NOTE 45 TO THE FINANCIAL STATEMENTS

**Tofaş Türk Otomobil Fabrikası
Anonim Şirketi**

Consolidated Financial Statements
September 30, 2006

(Convenience Translation of Financial Statements Originally Issued in Turkish - See Note 45 to the Financial Statements)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

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Tofaş Türk Otomobil Fabrikası Anonim Şirketi

CONSOLIDATED BALANCE SHEET

As of September 30, 2006

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

ASSETS	Notes	Unaudited September 30, 2006	Audited December 31, 2005
Current Assets		1.203.821	1.120.255
Cash and cash equivalents	4	506.241	483.726
Investment securities	5	-	10.324
Trade receivables from third parties (net)	7	144.024	188.841
Financial lease receivables	8	-	-
Trade receivables from related parties (net)	9	318.575	266.439
Other receivables (net)	10	2.625	1.622
Biological assets (net)	11	-	-
Inventories (net)	12	185.311	148.527
Receivables from construction projects in progress (net)	13	-	-
Deferred tax asset	14	-	-
Other current assets	15	47.045	20.776
Non-current Assets		984.556	812.740
Trade receivables from third parties (net)	7	-	-
Financial lease receivables	8	-	-
Trade receivables from related parties (net)	9	-	-
Other receivables (net)	10	19.316	7.286
Available for sale financial assets (net)	16	30.684	30.684
Positive/negative goodwill (net)	17	-	-
Investment properties (net)	18	-	-
Property, plant and equipment (net)	19	613.994	486.666
Intangibles (net)	20	282.682	143.853
Deferred tax asset	14	37.848	144.194
Other non-current assets	15	32	57
Total Assets		2.188.377	1.932.995

The accompanying policies and explanatory notes on pages 5 through 40 form and integral part of the consolidated financial statements.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

CONSOLIDATED BALANCE SHEET

As of September 30, 2006

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

LIABILITIES	Notes	Unaudited September 30, 2006	Audited December 31, 2005
Current Liabilities		888.924	732.577
Short-term bank borrowings (net)	6	7.944	102.395
Current portion of long-term bank borrowings (net)	6	79.623	48.348
Short-term financial lease payables (net)	8	-	-
Other financial liabilities (net)	10	-	-
Trade payables to third parties (net)	7	248.818	153.454
Trade payables to related parties (net)	9	415.041	326.976
Advances taken	21	-	-
Progress billings amounts of construction in progress (net)	13	-	-
Provisions	9, 23	119.954	66.420
Deferred tax liability	14	-	-
Other current liabilities (net)	10	17.544	34.984
Non-current Liabilities		314.979	162.141
Long-term bank borrowings (net)	6	261.528	115.743
Long-term financial lease payables (net)	8	-	-
Other financial liabilities (net)	10	-	-
Trade payables to third parties (net)	7	-	-
Trade payables to related parties (net)	9	-	-
Advances taken	21	-	-
Provisions	23	53.451	46.398
Deferred tax liability	14	-	-
Other current liabilities (net)	10	-	-
Minority interest	24	-	-
Shareholders' Equity		984.474	1.038.277
Paid-in share capital	25	500.000	500.000
Adjustments to share capital and equity instruments	25	-	-
Capital reserves		368.484	368.486
Share premium		-	-
Gain on cancellation of shares		-	-
Revaluation fund		-	-
Revaluation surplus of financial assets	16	18.949	18.951
Inflation adjustment on equity items	26	349.535	349.535
Profit reserves	27, 28	3.777	58.721
Legal reserves		-	-
Statutory reserves		-	-
Extraordinary reserves		-	-
Special funds		-	-
Gain on sale of fixed assets and financial assets subject to share capital increase		-	-
Foreign currency translation adjustment		-	-
Cumulative gain on the hedging		3.777	58.721
Net income for the period		51.143	141.845
Transfer from net income for the period of gain on sale of fixed asset to share capital	26, 38	-	(31.632)
Retained earnings	27, 28	61.070	857
Total Liabilities and Shareholders' Equity		2.188.377	1.932.995

The accompanying policies and explanatory notes on pages 5 through 40 form and integral part of the consolidated financial statements.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

CONSOLIDATED INCOME STATEMENT
For the interim period ended September 30, 2006
(Currency – Thousands of New Turkish Liras (YTL))

	Notes	Unaudited September 30, 2006 Cumulative	Unaudited September 30, 2006 Last Quarter	Unaudited September 30, 2005 Cumulative	Unaudited September 30, 2005 Last Quarter
Operational Income					
Net sales	36	2.207.007	709.599	1.835.268	570.870
Cost of sales (-)	36	(1.983.453)	(657.429)	(1.677.248)	(524.294)
Service income (net)		1.152	-	738	738
Other income from operational activities (net)	36	33.588	13.184	45.453	13.986
Gross Operational Profit		258.294	65.354	204.211	61.300
Operating expenses (-)	37	(189.167)	(60.541)	(173.868)	(53.793)
Net Operational Profit / (Loss)		69.127	4.813	30.343	7.507
Other operating income	38	12.464	5.285	53.560	8.110
Other operating expense (-)	38	(3.495)	7.393	(54)	(24)
Financial income / (expense)	39	66.835	17.454	47.519	18.024
Operating Profit		144.931	34.945	131.368	33.617
Net monetary gain	40	-	-	-	-
Minority interest	24	-	-	-	-
Net Income Before Provision for Taxes		144.931	34.945	131.368	33.617
Taxation	41	(93.788)	(11.152)	(21.542)	(4.211)
Net Income / (Loss)		51.143	23.793	109.826	29.406
Weighted average number of shares (thousand shares with 1 New Turkish Kuruş each)		50.000.000	50.000.000	50.000.000	50.000.000
Earnings per share (New Turkish Kuruş)	42	0,10	0,05	0,22	0,06

The accompanying policies and explanatory notes on pages 5 through 40 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, 2006

(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 to manufacture passenger cars and light commercial vehicles under licenses from Fiat Auto S.p.A. (Fiat). The Company, which is a member of Koç Holding A.Ş. and Fiat, also produces various automotive spare parts used in its automobiles. The Company's main office is located in Büyükdere Cad. No:145 Kat:4-5 Zincirlikuyu Şişli, İstanbul. The manufacturing facilities are located in Bursa. The Company manufactures its cars pursuant to license agreements between the Company and Fiat. These license agreements prohibit the Company from assembling, producing, importing or selling any car other than Fiat cars. The Company has been registered with the Turkish Capital Market Board (CMB) and quoted on the İstanbul Stock Exchange (ISE).

The Company conducts a significant portion of its business with corporations, which are affiliates of Koç Holding A.Ş. or Fiat (see Note 9).

As of September 30, 2006, consolidated subsidiaries of the Company are as follows:

Name of the Company	Operating Area	Percentage of Ownership	
		September 30, 2006	December 31, 2005
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 Ticaret A.Ş.	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, 2006	December 31, 2005
Blue-collar	3.995	3.548
White-collar	958	892
Total number of personnel	4.953	4.440

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). CMB has issued communiqué no. XI-25 "Communique on Accounting Standards in Capital Markets" which sets out a comprehensive set of accounting principles. In this Communique 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.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Financial statements have been prepared under the alternative application defined by CMB as explained above. The financial statements and footnotes are presented using the compulsory standard formats as prescribed by CMB.

The consolidated financial statements were authorized for issue on November 16, 2006 by the Board of Directors of the Group and signed by Nezih Olcay, Accounting, Finance and Control Director and Selçuk Öncer, Accounting Director, representing Board of Directors. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Functional Currency and Reporting Currency

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 the financial statements after December 31, 2004 are not restated for the effects of inflation. Per State Institute of Statistics announcement for wholesale price index; as of September 30, 2006, the cumulative three year inflation rates was 36,6% while for the twelve months periods ending of the same date, the annual inflation rate is 9,48 %.

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

- Non-monetary assets, liabilities and shareholders' equity including share capital reported in the consolidated balance sheet as of September 30, 2006 and December 31, 2005 are derived by indexing the additions occurred until December 31, 2004. The additions after this date are carried with their nominal amounts.
- All the items in the income statement for the period ended September 30, 2006 and 2005 are stated with their historical values except for (i) the depreciation and amortization expenses that are calculated based on gross book values of tangible and intangible assets that are restated until December 31, 2004 and nominal values of additions after January 1, 2005; and (ii) the gain /loss on sales of those assets.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. 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 intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

3. ACCOUNTING POLICIES AND PRINCIPLES

Cash and Cash Equivalents

Cash and cash equivalents includes 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.

Cash and cash equivalent balances in the consolidated cash flow statements is not include the cash amounts with original maturity of three months or more.

Investments and Other Financial Assets

Held- to- maturity investments

Financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity.

Investments that are intended to be held to maturity are measured at amortised cost by using effective interest rate. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Interest income of held-to-maturity investments is included in income statement.

As of September 30, 2006 and December 31, 2005 the Group does not have any held-to-maturity investments.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition, available for sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity. The interest income, which is computed by using effective interest rate is recognized in the income statement.

During 2005, the Group has sold its investment securities which are classified as held to maturity before their maturities. Based on the provisions of IAS 39 (Financial Instruments: Recognition and Measurement), an entity is not allowed to classify any financial assets as held-to-maturity if the entity has, during the current financial year or the two preceding financial years, sold or reclassified more than an insignificant amount of held-to maturity investments before maturity other than the specific exceptions provided in the Standard.

Loans (Consumer Financing Loans)

Consumer financing loans originated by KFK are carried at amortized cost. A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the income statement if previously written off.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

3. ACCOUNTING POLICIES AND PRINCIPLES (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 amounts invoiced or not 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 after provision for obsolete items. 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 depreciation terms are as follows;

	Starting from January 1, 2006	Upto December 31, 2005
Land improvements	33 years	33 years
Buildings	33 years	25 years
Machinery and equipment	12 - 14 years	8 - 12 years
Motor vehicles	4 - 8 years	4 - 5 years
Furnitures and fixtures	8 years	6 - 8 years
Moulds and models	6 - 8 years	6 - 8 years
Leasehold improvements	30 years	30 years

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.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

3. ACCOUNTING POLICIES AND PRINCIPLES (continued)

The Group has performed a review of the useful lives of its fixed assets and revised the useful lives of certain assets effective from January 1, 2006. The effect of this revision on the financial statements as of September 30, 2006 is to decrease the depreciation expense by YTL 23.617.

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 above criteria are first met (Note 20).

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognized in previous years no longer exist.

Interest Income and Expense

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

Revenue

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.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

3. ACCOUNTING POLICIES AND PRINCIPLES (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.

Borrowing Costs

Borrowing costs are expensed as incurred. Except for the interest on loans obtained in relation with the investment of Mini Cargo model which is capitalised over the fixed assets acquired inconnection with this project.

Fair Value of Financial Instruments

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

Financial Assets

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

Financial Liabilities

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

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

3. ACCOUNTING POLICIES AND PRINCIPLES (continued)

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 income tax is computed, using the liability method, based on the tax rates that have been enacted at the balance sheet date 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 income 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 income 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 income tax asset to be utilized. Deferred taxes arising from income and expenses accounted under equity are also recorded under equity.

Deferred income 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.

Reserve for Employee Termination 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 realises the payment of such premiums. Social security premiums are reflected in the personnel expenses as they accrue. During 2006, the Group had social security premium expenses amounting to YTL 19.324 (December 31, 2005 - YTL 25.189).

Earnings / Loss 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.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

3. ACCOUNTING POLICIES AND PRINCIPLES (continued)

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 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.

Foreign Currency Transactions and Translation

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 is announced by Turkish Republic Central Bank. 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 and other provisions are relying 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.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

3. ACCOUNTING POLICIES AND PRINCIPLES (continued)

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 hedge cash flow 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.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and short-term deposits, consumer financing loans, investment securities 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 foreign currency risk, credit risk and interest rate risk. The management reviews and agrees policies for managing each of these risks which are summarised below. The Group monitors the market price risk arising from all financial instruments.

Credit Risk

Other than its related parties, the Group trades with only with recognized, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit screening procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group, other than the disclosed balances and transactions with the related parties.

Interest Rates Risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

Currency Risk

The Group is exposed to the foreign exchange risk through the impact of rate changes at the translation of foreign currency denominated liabilities to New Turkish lira. The currency risks are monitored and limited by the analysis of foreign currency position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

4. CASH AND CASH EQUIVALENTS

	September 30, 2006	December 31, 2005
Cash on hand	67	23
Cash at banks		
-demand deposits	10.668	22.862
-time deposits	495.855	460.891
Payment orders	(349)	(50)
Total	506.241	483.726

The breakdown of time deposits are as follows:

	September 30, 2006		December 31, 2005	
	Amount (YTL Equivalent)	Effective interest rate per annum (%)	Amount (YTL Equivalent)	Effective interest rate per annum (%)
Denominated in YTL	383.524	16 – 21,05	361.536	7 - 19
Denominated in USD	5.613	3,10	986	2,85
Denominated in EUR	106.718	5,00	98.369	2,85
Total	495.855		460.891	

As of September 30, 2006, the maturities of time deposits are between a week and three months (December 31, 2005 - between a week and ten months). As of September 30, 2006, there are no time deposits with maturities exceeding three months. As of December 31, 2005, the total amount of time deposits with maturities exceeding three months is YTL 25.000. Accordingly, for the purposes of cash flow statement the cash and cash equivalents as of December 31, 2005 is YTL 458.726. The time deposits bear fixed interest rates.

5. INVESTMENT SECURITIES

As of September 30, 2006, the Group does not have investment securities (December 31, 2005 - YTL 10.324; interest rate 14,7%).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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6. FINANCIAL LIABILITIES

a) Short-term Bank Borrowings

	September 30, 2006			December 31, 2005		
	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	-	5.792	10-12	-	21.270	12
Denominated in EUR	1.100	2.086	3,75 - 4,64	50.800	80.645	2,99
Accrued interest		66			480	
Total		7.944			102.395	

b) Long-term Bank Borrowings

	September 30, 2006			December 31, 2005		
	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 YTL	-	10.000	21.2			
Denominated in EUR	172.909	327.905	6 Months Euribor-0,36%- 6 Months Euribor+1,64%	102.072	162.040	Euribor+0,9%
Accrued interest	1.621	3.246		1.292	2.051	
Less: Current portion of long-term bank borrowings	(41.896)	(79.623)		(30.455)	(48.348)	
Total	132.634	261.528		72.909	115.743	

YTL loans bear fixed interest rates while Euro loans bear variable interest rate.

The repayment schedule of the long-term bank borrowings as of September 30, 2006 is as follows:

	September 30, 2006	December 31, 2005
2007	-	46.298
2008	60.307	46.298
2009 and after (*)	201.221	23.147
Total	261.528	115.743

(*) Repayment of the long-term loans amounting to YTL 168.569 obtained in relation with the investment for Mini Cargo model will be made between 2008 and 2015 in equal installments.

The Euro denominated long-term loans were obtained to finance the investment to manufacture Doblo and Mini Cargo light commercial vehicles. 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 Peugeot Citroen Automobiles SA (PSA) through future purchases. Accordingly, the Group's exposure to foreign exchange rate and interest rate fluctuations is undertaken by Fiat and PSA.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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7. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables

	September 30, 2006	December 31, 2005
Accounts receivables	144.332	188.686
Notes receivable and due dated checks	6	612
Doubtful trade receivables	469	469
	144.807	189.767
Less: Provision for doubtful receivables	(467)	(467)
Less: Discount	(316)	(459)
Total	144.024	188.841

As of September 30, 2006, the letter of guarrantees, guarrantee notes and direct debit system limit (*) obtained as collateral for trade receivables amounted to YTL 28.908, YTL 8.452 and YTL 183.313, respectively (December 31, 2005 - YTL 122.903, YTL 232 and none).

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

b) Trade Payables

	September 30, 2006	December 31, 2005
Trade payables	249.657	153.989
Less: Discount	(839)	(535)
Total	248.818	153.454

8. FINANCE LEASE OBLIGATIONS AND RECEIVABLES

As of September 30, 2006 and December 31, 2005, the Group does not have any leasing obligation or receivable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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9. RELATED PARTY BALANCES

Related party balances

	September 30, 2006	December 31, 2005
Due from related parties		
Fiat	277.429	212.191
Birmot A.Ş. (Birmot - Subsidiary of Koç Holding A.Ş.)	41.037	51.656
Other	809	3.242
	319.275	267.089
Less: Discount	(700)	(650)
Total	318.575	266.439

	September 30, 2006	December 31, 2005
Due to related parties		
Fiat	389.869	309.644
Mako Elektrik Sanayi ve Ticaret A.Ş. (Mako - Associate company of Fiat)	8.782	5.853
Comau S.p.A. (Comau - Associate company of Fiat)	10.255	1.701
Birmot	806	243
Others	6.728	10.676
	416.440	328.117
Less: Discount	(1.399)	(1.141)
Total	415.041	326.976

	September 30, 2006	December 31, 2005
Other current liabilities		
Fiat	5.202	8.421
Other	2.947	3.520
Total	8.149	11.941

As of September 30, 2006, time and demand deposits of the Company amounting to YTL 390.064 (December 31, 2005 - YTL 406.233) are deposited at Koçbankı A.Ş..

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

9. RELATED PARTY BALANCES (continued)

Related party transactions

Sales	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Fiat	1.179.435	271.248	714.270	199.168
Birmot	301.016	90.727	306.807	92.386
Other	5.191	1.501	5.690	1.226
Total	1.485.642	363.476	1.026.767	292.780

Domestic purchases	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Mako - Associate company of Fiat	42.550	13.437	44.190	13.786
Powetrain Mekanik Sanayi ve Ticaret Limited Şirketi - Associate company of Fiat	20.710	5.456	30.168	2.607
Beko Ticaret Anonim Şirketi (*)	15.501	638	11.722	5.447
Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş. (*)	9.522	1.959	11.781	3.868
Döktaş Ticaret Sanayi ve Anonim Şirketi (*)	2.953	557	3.134	910
Ram Sigorta Aracılık A.Ş. (*)	3.051	240	4.730	215
Others	13.296	3.629	14.420	6.526
Total	107.583	25.916	120.145	33.359

(*) Subsidiary of Koç Holding A.Ş.

Foreign Purchases	September 30, 2006		September 30, 2005	
	Materials and Services	Tangible and Intangible Assets	Materials and Services	Tangible and Intangible Assets
Fiat	955.413	4	742.253	63
Kofisa S.A.	484	9.731	1.386	-
Other	8.919	29.055	1.717	-
Total	964.816	38.790	745.356	63

Interest and other income from related parties, during the six months period ended September 30, 2006 amounts to YTL 49.025 (September 30, 2005 - YTL 22.043).

Salaries and similar benefits paid to the top management (18 people) (September 30, 2005 - 22 people) amounted to YTL 5.960 (September 30, 2005 - YTL 3.385).

During 2006, research and development services obtained from related parties amounts to EUR 17.775.032 (YTL 30.992) and included in intangible assets (September 30, 2005- none).

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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

10. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables

	September 30, 2006	December 31, 2005
Short-term consumer financing loans	2.116	1.146
Non-performing loans	2.932	2.750
	5.048	3.896
Provision for loan impairment	(2.423)	(2.274)
Total	2.625	1.622
Long-term consumer financing loans	19.316	7.286
Total	19.316	7.286

As of September 30, 2006, YTL loans originated by the Group bear monthly fixed interest rates ranging between 1,20% - 2,10% per month (December 31, 2005 - 1,25%- 2,07%).

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

	September 30, 2006	December 31, 2005
2007	1.205	2.359
2008	5.632	3.549
2009	7.922	1.378
2010	4.557	-
Total	19.316	7.286

Movements in the allowance for impairment for September 30, 2006 and December 31, 2005 is as follows:

	September 30, 2006	December 31, 2005
January 1,	2.274	2.381
Loan impairment expense during the year	225	88
Recoveries from loans under follow-up	(76)	(195)
	2.423	2.274

The Group has obtained YTL 500 of mortgages and YTL 28.945 of pledge rights as a guarantee for the consumer financing loans (December 31, 2005 - YTL 500 and YTL 12.811).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2006

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10. OTHER RECEIVABLES AND PAYABLES (continued)

b) Other Payables

	September 30, 2006	December 31, 2005
Taxes and funds payable	8.834	23.221
Social securities payable	5.878	4.825
Payable to personnel	2.751	5.165
Other	81	1.773
	17.544	34.984

c) Other Financial Liabilities

The Group does not have any financial liabilities as of September 30, 2006 (December 31, 2005 - None).

11. BIOLOGICAL ASSETS

None.

12. INVENTORIES

	September 30, 2006	December 31, 2005
Raw materials, net of reserve for obsolescence of YTL 3.942 (December 31, 2005 - YTL 1.661)	62.378	39.457
Work-in-process	17.428	15.596
Finished goods, net of reserve for obsolescence of YTL 1.514 (December 31, 2005 - YTL 1.344)	25.179	15.635
Spare parts	28.249	21.590
Imported vehicles	23.606	32.023
Goods-in transit and advances given	28.471	24.226
Total	185.311	148.527

13. RECEIVABLES FROM CONSTRUCTION PROJECTS IN PROGRESS, net

None.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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14. DEFERRED TAX ASSETS AND LIABILITIES

The breakdown of temporary differences and the resulting deferred tax assets as of September 30, 2006 and December 31, 2005, using the effective tax rates were as follows :

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	September 30, 2006	December 31, 2005	September 30, 2006	December 31, 2005
Employee termination benefits reserve	(53.451)	(46.398)	10.690	13.919
Warranty provision	(59.694)	(53.345)	17.908	16.003
Temporary differences arising between tax and book bases of property, plant and equipment and intangibles and inventories	307.211	154.982	(50.765)	(46.494)
Cumulative gain on the hedging	(2.906)	(45.170)	872	13.551
Investment allowance (Note 30)	(493.899)	(1.442.192)	50.378	147.104
Unused tax loss carryforward of KFK	(20.302)	(22.875)	4.060	6.862
Current year tax loss of Tofaş	(27.706)	-	8.312	-
Other temporary differences	1.540	(376)	(520)	113
Deferred tax asset, net			40.935	151.058
Impairment for deferred tax asset (KFK's deferred tax asset)			(3.087)	(6.864)
Deferred tax asset, net			37.848	144.194

The movement on the deferred tax account is as follows:

	September 30, 2006	December 31, 2005
Deferred tax asset at beginning of the period / year	144.194	159.910
Deferred tax (charge) / credit for the period / year	(93.668)	(20.236)
Amount accounted under equity	(12.678)	4.520
Deferred tax assets at period / year end	37.848	144.194

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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15. OTHER CURRENT/NON-CURRENT ASSETS

a) Other Current Assets

	September 30, 2006	December 31, 2005
VAT deductible	34.924	16.559
Prepaid expenses	3.329	465
Accrued income	373	128
Other	8.419	3.624
	47.045	20.776

b) As of September 30, 2006, the Group has other non-current assets amounting to YTL 32 (December 31, 2005 - YTL 57).

16. AVAILABLE FOR SALE FINANCIAL ASSETS

As of September 30, 2006 and December 31, 2005, the available for sale financial assets of the Group comprised the following:

	Percentage of Interest	September 30, 2006	December 31, 2005
Entek Elektrik Üretimi A.Ş.	13.33 %	30.684	30.684
		30.684	30.684

As of September 30, 2006 and December 31, 2005, the participation has been reflected at its assessed fair value of YTL 30.684, which is derived from the appraisal study dated December 29, 2005. The increase of YTL 18.949, that has stemmed from fair value measurement of the participation is presented in the “revaluation surplus of financial assets” account under shareholders equity.

17. POSITIVE/(NEGATIVE) GOODWILL

None.

18. INVESTMENT PROPERTIES

None.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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19. PROPERTY, PLANT AND EQUIPMENT, net

During the period ended September 30, 2006, 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	Advances and Construction in Progress	Total
At December 31, 2005, net of accumulated depreciation	94.614	145.955	185.106	27.793	5.868	4.892	22.438	486.666
Additions	-	-	-	479	-	364	195.716	196.559
Disposals	-	-	-	-	(1.450)	-	-	(1.450)
Transfers	5.210	7.284	3.799	5.851	1.560	1.447	(25.151)	-
Accumulated depreciation of disposals	-	-	-	-	1.108	-	-	1.108
Depreciation charge for the period	(3.020)	(15.190)	(42.189)	(6.235)	(1.695)	(560)	-	(68.889)
At September 30, 2006, net of accumulated depreciation	96.804	138.049	146.716	27.888	5.391	6.143	193.003	613.994
At September 30, 2006								
Cost	256.226	934.926	1.024.181	203.809	25.815	7.187	193.003	2.645.147
Accumulated depreciation	(159.422)	(796.877)	(877.465)	(175.921)	(20.424)	(1.044)	-	(2.031.153)
Net carrying amount	96.804	138.049	146.716	27.888	5.391	6.143	193.003	613.994

(Convenience Translation of Financial Statements Originally Issued in Turkish – See Note 45)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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19. PROPERTY, PLANT AND EQUIPMENT, net (continued)

During the year ended December 31, 2005, 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	Advances and Construction in Progress	Total
At December 31, 2004, net of accumulated depreciation	99.479	187.260	215.005	28.741	6.413	3.811	21.464	562.173
Additions	1.386	130	-	8.482	3.460	1.272	47.645	62.375
Disposals	(13.766)	(7.506)	(1.337)	(273)	(4.318)	-	-	(27.200)
Transfers	-	6.577	40.084	10	-	-	(46.671)	-
Accumulated depreciation of disposals	13.750	7.506	1.337	273	2.756	-	-	25.622
Depreciation charge for the year	(6.235)	(48.012)	(69.983)	(9.440)	(2.443)	(191)	-	(136.304)
At December 31, 2005, net of accumulated depreciation	94.614	145.955	185.106	27.793	5.868	4.892	22.438	486.666
At December 31, 2005								
Cost	251.016	927.642	1.020.382	197.479	25.705	5.376	22.438	2.450.038
Accumulated depreciation	(156.402)	(781.687)	(835.276)	(169.686)	(19.837)	(484)	-	(1.963.372)
Net carrying amount	94.614	145.955	185.106	27.793	5.868	4.892	22.438	486.666

Restrictions on Assets

As of September 30, 2006 and December 31, 2005, there are no restrictions on assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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20. INTANGIBLES, net

During the period ended September 30, 2006 and December 31, 2005, the movement of intangibles is as follows:

	License Fee and Development Costs	Others	Total
At December 31, 2005, net of accumulated depreciation	142.337	1.516	143.853
Additions	148.827	2.531	151.358
Depreciation charge for the year	(12.097)	(432)	(12.529)
At September 30, 2006, net of accumulated depreciation	279.067	3.615	282.682
At September 30, 2006			
Cost	414.039	18.704	432.743
Accumulated depreciation	(134.972)	(15.089)	(150.061)
Net carrying amount	279.067	3.615	282.682

	License Fee and Development Costs	Others	Total
At December 31, 2004, net of accumulated depreciation	34.932	992	35.924
Additions	123.215	1.315	124.530
Depreciation charge for the year	(15.810)	(791)	(16.601)
At December 31, 2005, net of accumulated depreciation	142.337	1.516	143.853
At December 31, 2005			
Cost	265.212	16.173	281.385
Accumulated depreciation	(122.875)	(14.657)	(137.532)
Net carrying amount	142.337	1.516	143.853

21. ADVANCES TAKEN

None.

22. EMPLOYEE PENSION PLANS

None.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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23. PROVISIONS

a) Short-term Provisions

	September 30, 2006	December 31, 2005
Warranty provision	59.694	53.345
Provision for sales discount	11.464	2.136
Royalty expense provision	2.688	7.484
Services from third parties	2.515	1.323
Price difference provision	17.391	-
Research and development expense provision	14.323	-
Other	11.879	2.132
Total	119.954	66.420

The warranty provision movement for the periods ended with September 30, 2006 and December 31, 2005 is as follows:

	September 30, 2006	December 31, 2005
Balance as of January 1	53.345	44.247
Utilized	(13.820)	(20.686)
Provision for the period / year	20.169	29.784
	59.694	53.345

b) Long-term Provisions

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 historical YTL 1.857 (in full YTL)) (December 31, 2005 - YTL 1.727 (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.

	September 30, 2006	December 31, 2005
Discount rate (per annum)	5,49%	5,49%
Estimated turnover rate for retirement	99%	99%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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23. PROVISIONS (continued)

Movements in reserve for employee termination benefits during the years ended with September 30, 2006 and December 31, 2005 is as follows:

	September 30, 2006	December 31, 2005
Balance as of January 1	46.398	38.457
Payments	(2.108)	(3.468)
Charge for the period / year	9.161	11.409
	53.451	46.398

24. MINORITY INTEREST

None.

25. 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, 2006 and December 31, 2005 is YTL 500.000. As of September 30, 2006 and December 31, 2005 it is consisted of 50.000.000.000 shares with YTL 0,01 (full YTL) par value each. As of September 30, 2006 and December 31, 2005, the breakdown of issued share capital of the Company is as follows:

		September 30, 2006		December 31, 2005	
	Share Group	Amount (Historical YTL)	%	Amount (Historical YTL)	%
Fiat Auto S.p.A.	D	189.280	37,86	189.280	37,86
Koç Holding A.Ş.	A	187.938	37,59	187.938	37,59
Koç Holding companies and Koç family	A	1.342	0,27	1.342	0,27
Other, including publicly traded shares	E	121.440	24,28	121.440	24,28
Total Paid in Share Capital		500.000	100,00	500.000	100,00

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

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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26. CAPITAL RESERVES

The effect of restatement of share capital included in the balance sheet as of September 30, 2006 and December 31, 2005 consists of the following:

	September 30, 2006	December 31, 2005
Issued share capital	348.382	348.382
Statutory inflation adjustment which were not offset	1.153	1.153
Total	349.535	349.535

In 2004, the Group has net-off from share capital accounts, the balancing figure amounting to YTL 616.602 which was accounted under prior year losses account as of December 31, 2003. As of December 31, 2004, except for the inflation adjustment on paid-in share capital amounting to YTL 348.382, there is YTL 16.681 of statutory inflation adjustment which were not off-set. In 2005, the Group has transferred YTL 15.528 from this account to paid-in share capital. Furthermore in 2005, the Group has transferred the gain on sale of fixed asset amounting to YTL 31.632 and retained earnings balance of YTL 2.840 to paid-in share capital balance. Accordingly, the share capital balance has been increased to YTL 500.000.

27-28. 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.

The public companies distribute dividends in accordance with the CMB regulations, which can be summarized as follows:

The adjusting figure arising from the initial application of the inflation adjustment on the opening balance sheet (financial statements as of December 31, 2003), in accordance with Communiqué XI-25 of CMB, should be considered as a deduction during the calculation of the inflation adjusted profit available for distribution. Furthermore, such adjusting figure which is followed under statutory accumulated losses account may be offset with the net income for the year, in appropriated prior year earnings, and the remaining portion can be offset by the restatement differences arising from the application of inflation adjustment on (i) extraordinary reserves, (ii) legal reserves and (ii) other equity items.

According to the decisions taken at the General Assembly meeting held on April 20, 2006, the Group has distributed cash dividend from 2005 profit amounting to YTL 50.000.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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29. FOREIGN CURRENCY POSITION

The foreign currency position of the Group as of September 30, 2006 and December 31, 2005 is as follows:

	September 30, 2006					
	USD \$ (thousand)	YTL Equivalent	Euro (thousand)	YTL Equivalent	Other Foreign Currencies YTL Equivalent	Total YTL Equivalent
Cash and cash equivalents	4.044	6.054	60.124	114.019	-	120.073
Trade receivables (including due from related parties)	7.396	11.073	150.095	284.640	1	295.714
Other current assets	1.980	2.964	3.412	6.470	48	9.482
Total YTL equivalent of foreign currency assets	13.420	20.091	213.631	405.129	49	425.269
Bank borrowings	-	-	174.009	329.991	-	329.991
Trade payables (including due to related parties)	247	370	225.499	427.637	28	428.035
Advances taken and other liabilities	82	123	1.051	1.993	-	2.116
Total YTL equivalent of foreign currency liabilities	329	493	400.559	759.621	28	760.142
Net foreign currency position		19.598		(354.492)	21	(334.873)*
	December 31, 2005					
	USD (thousand)	YTL Equivalent	Euro (thousand)	YTL Equivalent	Other foreign currencies YTL Equivalent	Total YTL Equivalent
Cash and cash equivalents	782	1.049	74.460	118.205	-	119.254
Trade receivables (including due from related parties)	5.509	7.392	138.854	220.430	-	227.822
Other current assets	52	70	1.558	2.474	-	2.544
Total YTL equivalent of foreign currency assets	6.343	8.511	214.872	341.109	-	349.620
Short-term bank borrowings	-	-	154.206	244.803	-	244.803
Trade payables (including due to related parties)	203	272	235.884	374.466	3	374.741
Advances taken and other liabilities	39	53	9.181	14.575	-	14.628
Total YTL equivalent of foreign currency liabilities	242	325	399.271	633.844	3	634.172
Net foreign currency position		8.186		(292.735)	(3)	(284.552) (*)

(*) As explained in Note 6, the Group's exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in Euro are undertaken by Fiat/Peugeot Citroen Automobiles SA. Accordingly, net foreign currency exposure of the Group as of September 30, 2006, is YTL 4.882 (foreign currency liabilities position). ((December 31, 2005 - YTL 39.749) (foreign currency liabilities position)).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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30. INVESTMENT ENCOURAGEMENT CERTIFICATES

Investment Grants

The Group has obtained investment encouragement certificates in connection with certain major capital expenditures.

With the new law enacted, effective from January 1, 2006, Turkish government had 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 them. 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.

There is no investment allowances amount used in 2006 (December 31, 2005 - YTL 16.633). As of September 30, 2006 the amount of unused investment allowances is YTL 1.521.994 (December 31, 2005 - YTL 1.442.192). Based on the projections prepared by the Group Management, the investment allowance to be utilized until September 31, 2008 is estimated as YTL 493.899. Accordingly, the effect of unused investment allowances previously booked as deferred tax assets amounting to YTL 96.726 is charged expensed on the current year income statements.

31. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Litigations

As of September 30, 2006 the total amount of outstanding legal claims brought against the Group is YTL 2.414 (December 31, 2005 - YTL 2.023). The Group has reflected a reserve amounting to YTL 886 (December 31, 2005 - YTL 731) in the financial statements.

Bank Letters of Guarrantee

The breakdown of letters of guarrantee given by the Group as of September 30, 2006 and December 31, 2005 is as follows:

		September 30, 2006	December 31, 2005
a) Letters of guarrantee given to banks, customs and suppliers:	YTL	9.582	4
	USD\$	100.000	100.000
	EURO	193.040	2.000.000
b) Letters of guarrantee given for short-term and long-term bank borrowings :	YTL	16.886	22.190
c) Other :	YTL	83	1.256

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31. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)

Other

The Group has USD 1.398 million of export commitments to be realized before the end of year 2007, in connection with its export incentive certificates USD 831 million of the commitment is realized as of September 30, 2006. (December 31, 2005, the Group had three export incentive certificates that entitle the Group to realize USD 572 million of exports till the end of the expiration dates. As of December 31, 2005 the Group has realized USD 1.958 million in total.)

As of September 30, 2006, the unused letter of credit issued for the purchase of raw materials and supplies amounts to Euro 1.490.864 (December 31, 2005 - Euro 2.487.822). As of September 30, 2006, the unused letter of credit issued for the purchase of fixed assets amounts to Euro Euro 6.113.297 (December 31, 2005 - Euro 12.099.000).

The Group will realize investment amounting to Euro 172 million and Euro 350 million according to the agreement signed related with the two investment projects to be completed in 2007 and 2008. A part of the development work is carried out by Fiat and the development cost charged by Fiat in 2006 amounting to Euro 17,7 million (September 30, 2005 - None).

32. MERGERS AND AQUISITIONS

None.

33. SEGMENT REPORTING

None.

34. SUBSEQUENT EVENTS

None.

35. DISCONTINUING OPERATIONS

None.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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36. OPERATIONAL INCOME

a) Net Sales

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Export sales	1.235.191	452.951	803.730	223.388
Domestic sales	971.816	256.648	1.031.538	347.482
Total	2.207.007	709.599	1.835.268	570.870

b) Other income from operational activities

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Income from direct material sales	12.362	6.155	15.450	2.918
Income from mould sales	763	-	10.998	5.946
Income from scrap sales	10.851	3.525	9.096	2.599
Packaging income	7.080	2.586	5.726	1.317
Other	2.532	918	4.183	1.206
Total	33.588	13.184	45.453	13.986

c) Cost of Sales

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Direct material expense	1.515.057	502.648	1.284.756	392.260
Direct labor expense	49.242	15.713	43.148	14.078
Depreciation expense	67.400	22.214	98.430	32.712
Other production expenses	72.022	25.701	69.629	20.052
Total cost of production	1.703.721	566.276	1.495.963	459.102
Change in work-in-process	(1.832)	6	6.630	2.330
Change in finished goods	(9.544)	(836)	(31.525)	(12.949)
Cost of merchandise sold	280.836	87.465	191.091	73.065
Cost of other sales	10.272	4.518	15.089	2.746
Total	1.983.453	657.429	1.677.248	524.294

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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36. OPERATIONAL INCOME (continued)

d) Production and Sales Quantities

	Production		Sales	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Doblo	100.140	81.532	99.797	79.544
Albea	16.696	18.440	16.457	17.899
Palio - Palio Van	4.513	10.921	4.685	10.547
CKD-SKD demonte	6.324	6.144	6.144	6.144
Kuş Serisi	1.744	981	1.334	1.078
Marea	689	937	861	1.141
D200	35	-	-	-
Ducato	-	-	1.644	2.200
Punto	-	-	8.964	1.211
Strada	-	-	478	691
Idea	-	-	391	717
Alfa Romeo	-	-	564	735
Stilo	-	-	146	641
Panda	-	-	182	663
Ferrari	-	-	19	-
Maserati	-	-	13	-
Total	130.141	118.955	141.679	123.211

37. OPERATING EXPENSES

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Selling and marketing expense	112.641	31.605	103.362	29.904
General and administrative expense	72.186	28.142	61.526	21.276
Research and development expense	4.340	794	8.980	2.613
Total	189.167	60.541	173.868	53.793

a) Selling and Marketing Expense

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Warranty expenses	21.659	1.441	25.498	6.625
Personnel expenses	20.962	6.302	18.492	6.147
Royalty expenses	10.054	2.065	10.837	458
Advertisement expenses	20.570	7.845	15.970	7.392
Shipment and insurance expenses	13.318	3.874	14.367	6.921
Packaging expenses	4.344	1.549	4.030	1.243
Other selling and marketing expenses	21.734	8.529	14.168	1.118
Total	112.641	31.605	103.362	29.904

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37. OPERATING EXPENSES (continued)

b) General and Administrative Expense

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Personnel expenses	21.687	6.981	20.019	6.383
Depreciation and amortization expenses	13.400	3.617	14.313	4.812
Other general and administrative expenses	37.099	17.544	27.194	10.081
Total	72.186	28.142	61.526	21.276

c) Depreciation and Amortization Expense

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Cost of production	67.400	22.214	98.430	32.712
General and administrative expenses	13.400	3.617	14.313	4.812
Research and development expenses	618	189	1.395	451
Total	81.418	26.020	114.138	37.975

d) Personnel Expense and Average Number of Employees

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Wages and salaries	131.265	42.904	123.590	41.367
Labor expenses charged by subcontractors	1.941	397	28.110	8.697
Other social expenses	11.631	4.019	8.031	3.027
Total	144.837	47.320	159.731	53.091

38. OTHER OPERATING INCOME / EXPENSE AND GAIN / LOSS

a) Other Operating Income and Gains

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Research and development income	4.496	70	38.439	1.658
Rent income	920	310	3.648	571
Gain on sale of fixed assets	97	(3)	800	-
Dividend income	-	-	1.052	360
Others	6.951	4.908	9.621	5.521
	12.464	5.285	53.560	8.110

The gain on sale of fixed asset amounting to YTL 31.632 has been transferred to share capital in 2005 (Note 26).

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38. OTHER OPERATING INCOME / EXPENSE AND GAIN / LOSS (continued)

b) Other Operating Expense and Losses

As of September 30, 2006, the Group have other operating expenses of YTL 3.495 (September 30, 2005 - YTL 54).

39. FINANCIAL INCOME / EXPENSE

	September 30, 2006 Cumulative	September 30, 2006 Last Quarter	September 30, 2005 Cumulative	September 30, 2005 Last Quarter
Financial Income				
Foreign exchange gain	46.472	(38.150)	54.729	268
Interest income	82.065	29.583	56.630	21.151
Other financial income	602	334	611	329
Total financial income	129.139	(8.233)	111.970	21.748
Financial Expense				
Foreign exchange loss	(32.121)	40.901	(50.390)	2.176
Interest expense	(30.183)	(15.214)	(14.061)	(5.900)
Total financial expense	(62.304)	25.687	(64.451)	(3.724)
Financial income, net	66.835	17.454	47.519	18.024

40. NET MONETARY GAIN / LOSS

In accordance with the announcement of CMB dated March 17, 2005, the inflation accounting application has been ceased by January 1, 2005, therefore there is no monetary gain/loss incurred as of September 30, 2006 and September 30, 2005.

41. TAXATION

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

In Turkey, the corporation tax rate for the fiscal year beginning January 1, 2005 was 30%. Effective from January 1, 2006 corporate tax rate is reduced to 20%. 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% (2005 - 30%) 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.

In 2003 and prior years, corporation tax was computed on the statutory income tax base without any adjustment for inflation accounting. Starting from January 1, 2004, the statutory financial statements from which taxable income is derived are adjusted for inflation. Accumulated earnings arising from the first application of inflation accounting on the December 31, 2003 balance sheet are not subject to corporation tax, and similarly accumulated deficits arising from such application are not deductible for tax purposes. Moreover, accumulated tax loss carry-forwards related to 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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41. TAXATION (continued)

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to April 24, 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from April 24, 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to April 24, 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. 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 them. 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.

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. As of September 30, 2006, the tax loss carry forward of the Group is YTL 48.008 (September 31, 2005 - YTL 22.875).

For the periods ended September 30, 2006 and September 31, 2005, the analysis of the tax expense in the income statement is as follows:

	September 30, 2006	September 30, 2005
Current tax charge	(121)	(16.750)
Deferred tax charge	(93.667)	(4.792)
	(93.788)	(21.542)

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41. TAXATION (continued)

The numeric reconciliation between tax income and the accounting results multiplied by the applicable tax rate as of September 30, 2006 and September 30, 2005 are as follows:

	September 30, 2006	September 31, 2005
Net income before provision for taxes	144.931	131.368
Income tax charge at effective tax rate	(43.170)	(39.410)
Effect of investment allowances - amount used during current period	-	901
Effect of change in tax rates	15.622	-
Effect of unused investment allowances	-	11.351
Effect of investment allowances that can not be utilised	(96.726)	-
Non-taxable income	-	9.829
Effect of restatement of certain non-monetary items and others	26.709	(5.372)
Allowance for deferred tax asset of KFK	3.777	1.159
	(93.788)	(21.542)

42. EARNINGS PER SHARE

Earnings per share is determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned. As of September 30, 2006 and September 30, 2005, the weighted average number of shares outstanding is 50.000.000.000 and earnings per share is Yeni Kuruş 0,10 and Yeni Kuruş 0,22, respectively.

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43. CASH FLOW STATEMENT

	September 30, 2006	September 30, 2005
Cash flows from operating activities		
Net income before provision for taxes	144.931	131.368
Reconciliation between net income before monetary loss and taxation and cash generated from operating activities		
Depreciation and amortization	81.418	114.138
Interest expense	30.183	14.061
Provision for employment termination benefits	9.161	10.474
Gain on sale of property, plant and equipment	(97)	(38.439)
Warranty provision	20.169	25.498
Operating income before working capital changes	285.765	257.100
Net working capital changes in-		
Trade receivables and due from related parties	(7.319)	35.278
Inventories	(36.784)	(20.537)
Other current/non current assets and other receivables	(39.277)	(2.949)
Trade payables and due to related parties	183.429	67.242
Other current liabilities	29.745	18.978
Other long term liabilities	-	(23)
Employment termination benefits paid	(2.108)	(1.264)
Warranty payments	(13.820)	(15.744)
Net cash provided by operating activities	399.631	338.081
Cash flows from investing activities		
Investment securities	10.324	(22.611)
Deposits maturities over three months	25.000	(23.000)
Purchase of property, plant, equipment and internally developed intangibles	(347.917)	(69.858)
Proceeds from sale of property, plant and equipment and intangibles	439	39.691
Net cash used in investing activities	(312.154)	(75.778)
Cash flows from financing activities		
Dividend paid	(50.000)	(30.000)
Net change in bank loans	39.558	(64.798)
Interest paid	(29.520)	(16.353)
Net cash provided by / (used in) financing activities	(39.962)	(111.151)
Net increase in cash and cash equivalents	47.515	151.152
Cash and cash equivalents at the beginning of the year	458.726	279.409
Cash and cash equivalents at the end of the year	506.241	430.561

(Convenience Translation of Financial Statements Originally Issued in Turkish – See Note 45)

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44. STATEMENT OF CHANGES IN EQUITY

As of September 30, 2006 and September 30, 2005 shareholders' equity movement is as follows:

	Share Capital	Share Premium	Legal Reserves	Extraordinary Reserves	Revaluation surplus of financial assets	Inflation Adjustment Effect on Nominal Equity Items	Cumulative gain on the hedging	Accumulated Profits/(Loss)	Net Income for the Period	Total Shareholders' Equity
December 31, 2004	450.000	-	-	-	-	365.063	39.095	-	33.697	887.855
Transfers	-	-	-	-	-	-	-	33.697	(33.697)	-
Gain on the hedging	-	-	-	-	-	-	20.257	-	-	20.257
Dividend distribution	-	-	-	-	-	-	-	(30.000)	-	(30.000)
Revaluation surplus of financial assets	-	-	-	-	23.769	-	-	-	-	23.769
Net profit for the year	-	-	-	-	-	-	-	-	109.826	109.826
Transfers to share capital	50.000	-	-	-	-	(15.528)	-	(2.840)	(31.632)	-
September 30, 2005	500.000	-	-	-	23.769	349.535	59.352	857	78.194	1.011.707
December 31, 2005	500.000	-	-	-	18.951	349.535	58.721	857	110.213	1.038.277
Transfers	-	-	-	-	-	-	-	110.213	(110.213)	-
Gain on the hedging	-	-	-	-	-	-	(54.944)	-	-	(54.944)
Dividend distribution	-	-	-	-	-	-	-	(50.000)	-	(50.000)
Revaluation surplus of financial assets	-	-	-	-	(2)	-	-	-	-	(2)
Net profit for the year	-	-	-	-	-	-	-	-	51.143	51.143
September 30, 2006	500.000	-	-	-	18.949	349.535	3.777	61.070	51.143	984.474

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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45. OTHER MATTERS

Additional paragraph for convenience translation to English:

- a) The effect of the differences between the accounting principles summarized in Note 2 and the accounting principles generally accepted in countries in which the financial statements are to be distributed and International Financial Reporting Standards (IFRS), have not been quantified and reflected in the financial statements. The accounting principles used in the preparation of the financial statements differ from IFRS, with respect to the accounting for the effects of hyperinflation and presentation of financial statements. Accordingly, the financial statements are not intended to present the Group's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.
- b) In Board of Directors Meeting held on November 6, 2006, the Company has decided to participate in share capital increase of its subsidiary; Fer Mas Oto Ticaret A.Ş. with an amount of YTL 2.000.