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Independent Auditor's Report

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

We have audited the accompanying financial statements of Tofaş Türk Otomobil Fabrikası Anonim Şirketi (the Company) and its subsidiaries (together will be referred to as "the Group") which comprise the consolidated balance sheet as of December 31, 2007 and the related consolidated income statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tofaş Türk Otomobil Fabrikası Anonim Şirketi and its subsidiaries as of December 31, 2007 and its consolidated financial performance for the year then ended in accordance with Financial Reporting Standards published by Capital Market Board (Note 2) in Turkey.

Other Matter

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

As disclosed in Note 9 to the accompanying consolidated financial statements, major portion of the Company's sales and purchases are conducted through its related parties.

Additional paragraph for convenience translation to English:

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 accompanying financial statements. The differences with IFRS mainly related to the application of inflation accounting which was ceased one year later in IFRS, and the presentation of the basic financial statements and the notes to them. 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.

Erdem Tecer, SMMM
Engagement Partner

March 26, 2008
İstanbul, Turkey

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED BALANCE SHEET

As of December 31, 2007
(Currency - Thousands of New Turkish Liras (YTL))

		Current Year	Prior Year
		Audited December 31, 2007	Audited December 31, 2006
ASSETS	Notes		
Current Assets		1.472.695	1.261.832
Cash and cash equivalents	4	437.893	518.364
Investment securities	5	-	-
Trade receivables from third parties (net)	7	254.974	174.457
Financial lease receivables	8	-	-
Trade receivables from related parties (net)	9	431.091	331.056
Other receivables (net)	10	29.865	3.854
Biological assets (net)	11	-	-
Inventories (net)	12	284.158	157.055
Receivables from construction projects in progress (net)	13	-	-
Deferred tax asset	14	-	-
Other current assets	15	34.714	77.046
Non-current Assets		1.703.561	1.157.005
Trade receivables from third parties (net)	7	-	-
Financial lease receivables	8	-	-
Trade receivables from related parties (net)	9	-	-
Other receivables (net)	10	204.903	29.819
Available for sale financial assets (net)	16	23.994	23.994
Positive/negative goodwill (net)	17	-	-
Investment properties (net)	18	-	-
Property, plant and equipment (net)	19	1.011.802	751.474
Intangibles (net)	20	453.373	314.020
Deferred tax asset	14	9.451	37.656
Other non-current assets	15	38	42
Total Assets		3.176.256	2.418.837

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET

As of December 31, 2007
(Currency - Thousands of New Turkish Liras (YTL))

		Current Year	Prior Year
	Notes	Audited December 31, 2007	Audited December 31, 2006
LIABILITIES			
Current Liabilities		1.204.955	949.559
Short-term bank borrowings (net)	6	51.037	12.981
Current portion of long-term bank borrowings (net)	6	123.828	57.878
Short-term financial lease payables (net)	8	-	-
Other financial liabilities (net)	10	20.922	-
Trade payables to third parties (net)	7	419.089	305.224
Trade payables to related parties (net)	9	489.231	479.335
Advances taken	21	-	-
Progress billings amounts of construction in progress (net)	13	-	-
Provisions	23	55.012	63.085
Deferred tax liability	14	-	-
Other current liabilities (net)	10	45.836	31.056
Non-current Liabilities		810.231	451.282
Long-term bank borrowings (net)	6	665.004	376.499
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	64.952	53.985
Deferred tax liability	14	-	-
Other current liabilities (net)	10	80.275	20.798
Minority interest	24	-	-
Shareholders' Equity		1.161.070	1.017.996
Paid-in share capital	25	500.000	500.000
Adjustments to share capital and equity instruments	25	-	-
Capital reserves		361.796	361.796
Share premium		-	-
Gain on cancellation of shares		-	-
Revaluation fund		-	-
Revaluation surplus of financial assets	16	12.261	12.261
Inflation adjustment on equity items	26	349.535	349.535
Profit reserves	27, 28	84.888	31.700
Legal reserves		-	-
Statutory reserves		16.394	7.741
Extraordinary reserves		27.909	10.704
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		40.585	13.255
Net income for the period		175.819	81.875
Transfer from net income for the period of gain on sale of fixed asset to share capital	26, 38	-	-
Retained earnings	27, 28	38.567	42.625
Total Liabilities and Shareholders' Equity		3.176.256	2.418.837

The accompanying policies and explanatory notes on pages 6 through 44 form and integral part of the consolidated financial statements.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2007
Currency – Thousands of New Turkish Liras (YTL)

		Current Year	Prior Year
		(Audited)	(Audited)
	Notes	1 January - December 31, 2007	1 January - December 31, 2006
Operational Income			
Net sales	36	3.571.146	3.054.160
Cost of sales (-)	36	(3.243.884)	(2.758.498)
Service income (net)		1.170	1.004
Other income from operational activities (net)	36	86.625	50.971
Gross Operational Profit		415.057	347.637
Operating expenses (-)	37	(282.956)	(268.295)
Net Operational Profit		132.101	79.342
Other operating income	38	32.247	17.151
Other operating expense (-)	38	(2.116)	(4.158)
Financial income / (expense), net	39	51.483	86.271
Operating Profit		213.715	178.606
Net monetary gain	40	-	-
Minority interest	24	-	-
Net Income Before Provision for Taxes		213.715	178.606
Taxation	41	(37.896)	(96.731)
Net Income		175.819	81.875
Weighted average number of shares (thousand shares with 1 Yeni Kuruş each)		50.000.000	50.000.000
Earnings per share (Yeni Kuruş)	42	0,35	0,16

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007
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. These license agreements prohibit the Company from assembling, producing, importing or selling any car other than Fiat cars. However, 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 9).

As of December 31, 2007 and 2006, consolidated subsidiaries of the Company are as follows:

Name of the Company	Operating Area	Percentage of Ownership	
		December 31, 2007	December 31, 2006
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:

	December 31, 2007	December 31, 2006
Blue-collar	5.251	4.122
White-collar	1.234	966
Total number of personnel	6.485	5.088

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. 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 within the framework of 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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2007
Currency – Thousands of New Turkish Liras (YTL)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The consolidated financial statements were authorized for issue on March 26, 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 December 31, 2007 and 2006 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 intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using consistent accounting policies for similar transactions and other events in similar circumstances.

3. ACCOUNTING POLICIES AND PRINCIPLES

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.

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

Available for sale financial assets, net

All investments, including the initial acquisition expenses, are initially carried at cost. After initial recognition, investments classified as available for sale, carried at fair value. The fair value of investments traded in financial markets are designated as the stock exchange closing value at the balance sheet date. Gains or losses on remeasurement to fair value are recognized as a separate component of equity, under revaluation surplus of financial assets.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2007
Currency – Thousands of New Turkish Liras (YTL)

3. ACCOUNTING POLICIES AND PRINCIPLES (continued)

Loans (Consumer Financing Loans)

Consumer financing loans originated by the wholly owned subsidiary KFK and classified as other current receivables in the balance sheet are carried at amortized cost. Interest on these loans is recorded on accrual basis using the effective yield method. 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.

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
Furnitures and fixtures	8
Moulds and models	6 – 8
Leasehold improvements	30

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2007
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.

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 OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2007
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.

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 cost 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. In 2007, the Group capitalized YTL 21.351 (2006 - YTL 4.568) of interest expense on loans obtained in relation with the investment of Mini Cargo model and recognized under property, plant and equipment account.

Fair Value of Financial Instruments

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

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

Financial Assets

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

Financial Liabilities

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

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

For the year ended December 31, 2007
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 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. During 2007, the Group had social security premium expenses amounting to YTL 35.885 (2006 - YTL 26.828).

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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2007
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 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.

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 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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2007
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 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.

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 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.

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.

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3. ACCOUNTING POLICIES AND PRINCIPLES (continued)

Government 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.

4. CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Cash on hand	43	12
Cash at banks		
-demand deposits	52.901	25.826
-time deposits	385.109	492.598
Payment orders	(160)	(72)
Total	437.893	518.364

The breakdown of time deposits is as follows:

	December 31, 2007		December 31, 2006	
	Amount (YTL Equivalent)	Effective interest rate per annum (%)	Amount (YTL Equivalent)	Effective interest rate per annum (%)
Denominated in YTL	302.182	12 – 19,2	330.845	17,9 – 21,5
Denominated in USD	1.043	5	2.663	5
Denominated in EUR	81.884	3,4 - 5	159.090	3,1 – 3,5
Total	385.109		492.598	

As of December 31, 2007, the maturities of time deposits vary between one day and one month (December 31, 2006 - between one week and one month). As of December 31, 2007 and 2006, there are no time deposits with maturities exceeding three months. The time deposits bear fixed interest rates.

As of December 31, 2007, the cash at banks comprise deposits amounting to YTL 317.091 (December 31, 2006 – YTL 458.523) which are deposited at a bank which is related party of the Group.

5. INVESTMENT SECURITIES

As of December 31, 2007 and 2006, the Group does not have investment securities.

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6. FINANCIAL LIABILITIES

a) Short-term Bank Borrowings

	December 31, 2007			December 31, 2006		
	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 (*)	-	46.741	13 – 17,05	-	10.635	14 - 20
Denominated in EUR	2.100	3.591	4,84 – 5,57	1.100	2.037	4,64 – 5,1
Accrued interest		705			309	
Total		51.037			12.981	

b) Long-term Bank Borrowings

	December 31, 2007			December 31, 2006		
	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	361.993	619.080	6 Aylık Euribor-%0,073	221.709	410.495	6 Aylık Euribor-%0,036
Denominated in USD(*)			6 Aylık Euribor+%1,34			6 Aylık Euribor+%1,64
Denominated in YTL(*)	115.000	133.941	5,80 – 6,52	-	-	-
Accrued interest		29.465	16,40 – 21,20	-	20.000	21 – 21,9
Less: Current portion of long-term bank borrowings		6.346 (123.828)			3.882 (57.878)	
Total		665.004			376.499	

(*) The portion amounting to YTL 16.652 of the short-term bank borrowings and the whole long-term bank borrowings which are denominated in YTL and USD comprise bank borrowings obtained by KFK, consolidated subsidiary, to finance consumer financing loans.

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 December 31, 2007 and 2006 is as follows:

	December 31, 2007	December 31, 2006
1 - 5 years	462.187	273.184
After 5 years	202.817	103.315
Total	665.004	376.499

Repayment of the long-term loans amounting to YTL 540.846 (equivalent of EUR 316.247 thousand) 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. 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.

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7. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables

	December 31, 2007	December 31, 2006
Trade receivables	255.962	174.866
Doubtful trade receivables	486	486
	256.448	175.352
Less: Provision for doubtful receivables	(484)	(484)
Less: Discount	(990)	(411)
Total	254.974	174.457

As of December 31, 2007, the letter of guarantees, guarantee notes and direct debit system limit (*) obtained as collateral for trade receivables amounting to YTL 112.280, YTL 10.670 and YTL 220.830, respectively (December 31, 2006 - letter of guarantees amounting to YTL 79.779 and guarantee notes amounting to YTL 9.787 and direct debit system limit amounting to YTL 184.176).

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

As of December, 31 2007 and 2006 the maturity profiles of trade receivables are summarized as follows:

	Overdue but not doubtful receivables						Total
	Neither past due nor impaired	Up to 1 Month	1 to 2 Months	2 to 3 Months	3 to 4 Months	Over 4 Months	
2007	243.956	11.553	89	81	-	283	255.962
2006	159.043	10.655	-	-	-	5.168	174.866

b) Trade Payables

	December 31, 2007	December 31, 2006
Trade payables	420.858	306.891
Less: Discount	(1.769)	(1.667)
Total	419.089	305.224

8. FINANCE LEASE RECEIVABLES AND OBLIGATIONS

As of December 31, 2007 and 2006, the Group does not have any leasing obligations or receivables.

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

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9. RELATED PARTY BALANCES

Related party balances

Due from related parties	December 31, 2007	December 31, 2006
Fiat	357.666	281.638
Otokoç A.Ş. (Otokoç - Subsidiary of Koç Holding A.Ş.) (*)	75.396	49.388
Other	416	809
	433.478	331.835
Less: Discount	(2.387)	(779)
Total	431.091	331.056

(*) Formerly Birmot A.Ş.

Due to related parties	December 31, 2007	December 31, 2006
Fiat	439.339	404.515
Mako Elektrik Sanayi ve Ticaret A.Ş. (Mako - Associate company of Fiat)	19.246	15.891
Comau S.p.A. (Comau - Associate company of Fiat)	8.786	20.415
Elasis Societa Consortile per Azioni – (Elasis –Associate company of Fiat)	3.062	20.792
Other	21.251	20.342
	491.684	481.955
Less: Discount	(2.453)	(2.620)
Total	489.231	479.335

Related party transactions

	January 1- December 31, 2007	January 1- December 31, 2006
Sales		
Fiat	1.716.968	1.631.177
Otokoç	486.219	410.692
Other	9.708	7.484
Total	2.212.895	2.049.353

Domestic purchases

Mako	91.658	64.266
Powertrain Mekanik Sanayi ve Ticaret Limited Şirketi - Associate company of Fiat	33.811	29.679
Zer Merkezi Hizmetler ve Ticaret A.Ş. (formerly Beko Ticaret Anonim Şirketi) (*)	38.625	35.141
Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş. - Participation of Tofaş	19.276	14.420
Ram Sigorta Aracılık A.Ş. (*)	5.616	5.832
Döktaş Ticaret ve San. A.Ş. (**)	-	6.784
Other	33.477	23.875
Total	222.463	179.997

(*) Subsidiary of Koç Holding A.Ş.

(**) Until the date of disposal by Koç Holding A.Ş.

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9. RELATED PARTY BALANCES (continued)

	January 1-December 31, 2007		January 1-December 31, 2006	
	Materials and Services	Tangible and Intangible Assets	Materials and Services	Tangible and Intangible Assets
Foreign Purchases				
Fiat	1.512.803	-	1.324.387	36.079
Comau S.p.A.	7.914	23.200	-	50.147
Elasis	3.131	-	-	20.257
Kofisa S.A.	-	1.334	506	14.330
Other	14.495	-	11.435	9.219
Total	1.538.343	24.534	1.336.328	130.032

Interest and other income from related parties for the year ended December 31, 2007 amounts to YTL 48.248 (December 31, 2006 – YTL 67.292).

Salaries and similar benefits paid to the top management in 2007 (26 people) (December 31, 2006 - 22 people) amounts to YTL 13.436 (December 31, 2006 - YTL 11.488).

Furthermore, as of December 31, 2007, 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 5.654.

10. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables

	December 31, 2007	December 31, 2006
Short-term consumer financing loans	28.548	3.712
Non-performing loans	5.907	3.001
	34.455	6.713
Provision for loan impairment	(4.590)	(2.859)
Total	29.865	3.854
Long-term consumer financing loans	204.903	29.819
Total	204.903	29.819

As of December 31, 2007, YTL loans originated by the Group bear monthly fixed interest rates ranging between 1,20% - 2,05% per month (December 31, 2006 - 1,20% - 2,00%).

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

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10. OTHER RECEIVABLES AND PAYABLES (continued)

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

Years	December 31, 2007	December 31, 2006
1 to 2 years	71.196	2.753
2 to 3 years	86.543	9.235
Over 3 years	47.164	17.831
Total	204.903	29.819

Movements in the allowance for loan impairment for December 31, 2007 and 2006 are as follows:

	December 31, 2007	December 31, 2006
January 1,	2.859	2.274
Charge for the year	1.888	663
Recoveries from loans under follow-up	(157)	(78)
	4.590	2.859

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 (December 31, 2006 - YTL 30.683).

b) Other Payables

	December 31, 2007	December 31, 2006
Taxes and funds payable	25.582	17.409
Social securities payable	7.709	5.586
Payable to personnel	10.546	5.615
Other	1.999	2.446
Total	45.836	31.056

c) Other Financial Liabilities

As of December 31, 2007, other financial liabilities reflect calculated fair value of swap transactions of KFK, wholly owned subsidiary.

d) Other Long -Term Liabilities

As of December 31, 2007 other long-term liabilities of the Group amounting to YTL 80.275 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, 2006 - YTL 20.798).

11. BIOLOGICAL ASSETS

None.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

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12. INVENTORIES

	December 31, 2007	December 31, 2006
Raw materials, net of reserve for obsolescence of YTL 1.069 (December 31, 2006 - YTL 2.127)	96.108	47.270
Work-in-process	53.503	17.504
Finished goods, net of reserve for obsolescence of YTL 710 (December 31, 2006 - YTL 733)	36.266	12.510
Spare parts	21.380	22.691
Imported vehicles	30.639	22.251
Goods-in transit and advances given	46.262	34.829
Total	284.158	157.055

13. RECEIVABLES FROM CONSTRUCTION PROJECTS IN PROGRESS, net

None.

14. DEFERRED TAX ASSETS AND LIABILITIES

The breakdown of temporary differences and the resulting deferred tax assets as of December 31, 2007 and 2006, using the effective tax rates were as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Employee termination benefits	(64.952)	(53.985)	12.990	10.795
Warranty provision	(50.840)	(59.902)	15.252	17.971
Temporary differences arising between tax and book bases of property, plant and equipment and intangibles and inventories	421.074	238.557	(76.121)	(40.397)
Cumulative gain on the hedging	(34.335)	(9.910)	8.111	3.345
Cumulative gain on KFK swap transactions	(20.922)	-	4.184	-
Deferred income	(50.497)	(13.759)	10.693	2.752
Unused investment allowances (Note 30)	(332.407)	(419.467)	33.906	42.786
Unused tax loss carryforward of KFK	-	(3.049)	-	610
Other temporary differences	(1.639)	590	436	(206)
Deferred tax asset, net			9.451	37.656

The movement of the deferred tax asset balance during the year is as follows:

	December 31, 2007	December 31, 2006
Deferred tax asset at beginning of the year	37.656	144.194
Deferred tax credit / (charge) for the year	(33.423)	(96.332)
Amount accounted under equity	5.218	(10.206)
Deferred tax assets at the year end	9.451	37.656

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15. OTHER CURRENT/NON-CURRENT ASSETS

a) Other Current Assets

	December 31, 2007	December 31, 2006
Prepaid expenses	840	663
VAT deductible	20.251	65.012
Accrued income	5.173	744
Other	8.450	10.627
	34.714	77.046

b) As of December 31, 2007, the Group has other non-current assets amounting to YTL 38 (December 31, 2006 - YTL 42).

16. AVAILABLE FOR SALE FINANCIAL ASSETS

As of December 31, 2007 and 2006, the available for sale financial assets of the Group comprised the following:

	Percentage of Interest	December 31, 2007	December 31, 2006
Entek Elektrik Üretimi A.Ş. (Entek)	13.33	23,994	23,994
		23,994	23,994

As of December 31, 2006, the participation has been reflected at its assessed fair value of YTL 23.994, which is derived from the appraisal study dated January 29, 2007. The valuation difference of YTL 12.261 is presented under the "revaluation surplus of financial assets" 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 December 31, 2007.

17. POSITIVE/NEGATIVE GOODWILL

None.

18. INVESTMENT PROPERTIES

None.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

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19. PROPERTY, PLANT AND EQUIPMENT, net

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

	Land, Land Improvements and Buildings	Machinery and Equipment	Moulds and Models	Furniture and Fixture	Motor Vehicles	Leasehold Improvements	Advances and Construction in Progress	Total
At December 31, 2006, net of accumulated depreciation	111.342	146.305	134.633	31.056	6.418	6.066	315.654	751.474
Additions	-	10	-	191	7.529	5	358.879	366.614
Disposals	-	(27.000)	(8.130)	(11.519)	(3.469)	-	-	(50.118)
Transfers	24.185	263.949	218.423	38.811	-	780	(546.148)	-
Accumulated depreciation of disposals	-	26.804	8.130	11.148	2.575	-	-	48.657
Depreciation charge for the year	(4.704)	(23.343)	(64.446)	(8.577)	(2.967)	(788)	-	(104.825)
At December 31, 2007, net of accumulated depreciation	130.823	386.725	288.610	61.110	10.086	6.063	128.385	1.011.802
At December 31, 2007								
Cost	296.016	1.179.356	1.236.387	226.928	31.140	8.013	128.385	3.106.225
Accumulated depreciation	(165.193)	(792.631)	(947.777)	(165.818)	(21.054)	(1.950)	-	(2.094.423)
At December 31, 2007, net carrying amount	130.823	386.725	288.610	61.110	10.086	6.063	128.385	1.011.802

During the year ended December 31, 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	-	439	-	662	3.255	364	353.768	358.488
Disposals	-	(6.009)	-	(10.908)	(1.880)	-	-	(18.797)
Transfers	20.815	20.325	5.712	12.212	-	1.488	(60.552)	-
Accumulated depreciation of disposals	-	5.971	-	9.835	1.435	-	-	17.241
Depreciation charge for the year	(4.087)	(20.376)	(56.185)	(8.538)	(2.260)	(678)	-	(92.124)
At December 31, 2006, net of accumulated depreciation	111.342	146.305	134.633	31.056	6.418	6.066	315.654	751.474
At December 31, 2006								
Cost	271.831	942.397	1.026.094	199.445	27.080	7.228	315.654	2.789.729
Accumulated depreciation	(160.489)	(796.092)	(891.461)	(168.389)	(20.662)	(1.162)	-	(2.038.255)
At December 31, 2006, net carrying amount	111.342	146.305	134.633	31.056	6.418	6.066	315.654	751.474

Restrictions on Assets

As of December 31, 2007 and 2006, there are no restrictions on assets.

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20. INTANGIBLES, net

During the year ended December 31, 2007 and 2006, the movement of intangibles is as follows:

	License Fee and Development Costs	Other	Total
At December 31, 2006, net of accumulated amortization	307.398	6.622	314.020
Additions	150.553	6.225	156.778
Amortization charge for the year	(16.362)	(1.063)	(17.425)
At December 31, 2007, net of accumulated amortization	441.589	11.784	453.373
At December 31, 2007			
Cost	597.091	28.026	625.117
Accumulated amortization	(155.502)	(16.242)	(171.744)
At December 31, 2007, net carrying amount	441.589	11.784	453.373

	License Fee and Development Costs	Other	Total
At December 31, 2005, net of accumulated amortization	142.337	1.516	143.853
Additions	181.326	5.628	186.954
Amortization charge for the year	(16.265)	(522)	(16.787)
At December 31, 2006, net of accumulated amortization	307.398	6.622	314.020
At December 31, 2006			
Cost	446.538	21.801	468.339
Accumulated amortization	(139.140)	(15.179)	(154.319)
At December 31, 2006, net carrying amount	307.398	6.622	314.020

Intangible assets will be 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 18.397, which are not started to be amortized and which are not determined as ready to be used.

The Group has realized investments amounting to EUR 350 million in line with the agreements signed related to MCV project. Some parts of the development work has been carried out by Fiat. The development costs with respect to such investments are charged by Fiat to the Group.

21. ADVANCES TAKEN

None (December 31, 2006 - None).

22. EMPLOYEE PENSION PLANS

None.

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23. PROVISIONS

Short-term Provisions

	December 31, 2007	December 31, 2006
Warranty provision	50.840	59.902
Legal and consultancy expense provision	1.200	1.000
Other	2.972	2.183
Total	55.012	63.085

The warranty provision movement for the years ended December 31, 2007 and 2006 is as follows:

	December 31, 2007	December 31, 2006
Balance as of January 1	59.902	53.345
Utilized	(16.108)	(18.952)
Provision for the year	7.046	25.509
	50.840	59.902

a) 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 YTL 2.030 (in full YTL)) (December 31, 2006 - YTL 1.857 (in full YTL)) per year of employment at the rate of pay applicable at the date of retirement or termination.

The maximum rate of retirement pay has been increased to YTL 2.088 (in full YTL) as of January 1, 2008.

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. Assumptions used in the calculations are as follows :

	December 31, 2007	December 31, 2006
Discount rate	%5.71	%5.71
Estimated turnover rate for retirement	%99	%99

Movement in reserve for employee termination benefits for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Balance as of January 1	53.985	46.398
Interest expense	6.478	5.567
Payments	(3.526)	(2.571)
Charge for the year (including actuarial gain/loss)	8.015	4.591
December 31 balance	64.952	53.985

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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 December 31, 2007 and December 31, 2006 is YTL 500 million (full YTL). As of December 31, 2007 and 2006 it consists of 50 billion shares with YTL 0,01 (full YTL) par value each. As of December 31, 2007 and 2006, the breakdown of issued share capital of the Company is as follows:

	Share Group	December 31, 2007		December 31, 2006	
		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
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.

26. CAPITAL RESERVES

The effect of restatement of share capital included in the balance sheet as of December 31, 2007 and 2006 consists of the following:

	December 31, 2007	December 31, 2006
Issued share capital	348.382	348.382
Statutory inflation adjustment which was not offset	1.153	1.153
Total	349.535	349.535

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.

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 accordance with CMB regulations or in the statutory financial statements.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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27-28. LEGAL RESERVES - RETAINED EARNINGS (continued)

Based on the CMB Communiqué Serial: XI, No: 25 part fifteen article 399, the amount included in “Prior Year Losses” account resulting from the first application of inflation accounting should be considered as a deduction during the identification of the profit to be distributed based on the inflation adjusted financial statements. Accordingly, the amount followed under “Prior Year Losses” account may be offset against period income and retained earnings if exists, and the remaining losses against extraordinary reserves, legal reserves and equity restatement differences, respectively.

Based on the CMB Decree 2/53 dated January 18, 2007, in accordance with Communiqué No: XI/25, for the dividend distribution over the 2006 profit, the quoted companies are required to distribute a minimum of 20% (30% for the 2005 profits) 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.

The Group has distributed dividend from 2006 profit amounting to YTL 60.075 of which YTL 60.000 is distributed as cash, after deducting legal reserves.

29. FOREIGN CURRENCY POSITION

The foreign currency position of the Group as of December 31, 2007 and 2006 is as follows:

	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
Other receivables, long term	-	-	1.714	2.931	-	2.931
Total YTL equivalent of foreign currency assets		4.242		589.329	-	593.571
Short-term bank borrowings	-	-	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
Total YTL equivalent of foreign currency liabilities		277		1.189.468	53	1.189.798
Net foreign currency position		3.965		(600.139)	(53)	(596.227)(*)

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

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29. FOREIGN CURRENCY POSITION (continued)

	December 31, 2006					
	USD (thousand)	YTL Equivalent	Euro (thousand)	YTL Equivalent	Other foreign currencies YTL Equivalent	Total YTL Equivalent
Cash and cash equivalents	2.018	2.837	99.534	184.288	7	187.132
Trade receivables (including due from related parties)	36.225	50.917	155.028	287.034	-	337.951
Other current assets	175	246	1.234	2.285	40	2.571
Total YTL equivalent of foreign currency assets		54.000		473.607	47	527.654
Short-term bank borrowings	-	-	224.507	416.414	-	416.414
Trade payables (including due to related parties)	861	1.211	265.102	490.837	10	492.058
Other liabilities	-	-	4.265	7.897	-	7.897
Total YTL equivalent of foreign currency liabilities		1.211		915.148	10	916.369
Net foreign currency position		52.789		(441.541)	37	(388.715) (*)

(*) 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 and PSA. Accordingly, net foreign currency exposure of the Group excluding such borrowings as of December 31, 2007 is YTL 32.799 foreign currency asset position (December 31, 2006 - YTL 27.699, foreign currency asset position).

30. 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.

The amount of investment allowances used in 2007 is YTL 87.060 (December 31, 2006 - YTL 50.692). As of December 31, 2007 the amount of unused investment allowances is YTL 1.843.543 (December 31, 2006 - YTL 1.591.712). Based on the projections prepared by the Group management, the investment allowance to be utilized until December 31, 2008 is estimated as YTL 332.407.

Government Grants

Government grants for research and development expenditures obtained in 2007 in extension of Mini Cargo project amounting to YTL 60.324 (December 31, 2006 - YTL 20.798) provided by TÜBİTAK has been recognized under other liabilities (Note 10d). Furthermore, grants for research and development expenditures in extension of other projects amounting to YTL 7.295 have been earned and recorded as income. (2006 - YTL 4.759).

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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31. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Litigations

As of December 31, 2007 the total amount of outstanding legal claims brought against the Group is YTL 1.955 (December 31, 2006 - YTL 2.876). The Group has reflected a reserve amounting to YTL 1.200 (December 31, 2006 - YTL 1.000) in the financial statements.

Bank Letters of Guarantee

The breakdown of letters of guarantee and guarantee notes given by the Group as of December 31, 2007 and 2006 is as follows:

		December 31, 2007	December 31, 2006
a) Letters of guarantee given to banks, customs and suppliers	YTL	4	4
	ABD\$	100,000	100.000
	EUR	2.000.000	2.000.000
b) Guarantee notes given for short-term and long-term bank borrowings	YTL	29.400	10.500
c) Other	YTL	802	1.689

Other

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 December 31, 2006, the Group had export incentive certificate that entitle the Group to realize USD 740 million of exports until July 30, 2007. USD 448 million of export commitments have been realized as of December 31, 2006.)

As of December 31, 2007, the unused letter of credit issued for the purchase of raw materials and supplies amounts to Euro 7.081.939 (December 31, 2006 - Euro 2.384.285). As of December 31, 2007, the unused letter of credit issued for the purchase of fixed assets amounts to Euro 8.837.352 (December 31, 2006 - Euro 8.115.410).

The consolidated subsidiaries KFK and Platform have signed a suretyship agreement which guarantees the payments of long-term bank borrowings amounting to Euro 350.000.000.

The long-term bank borrowing agreement related to the finance of MCV project entitles the Group to comply with certain financial ratios. Such financial ratios are met by the Group as of December 31, 2007.

32. MERGERS AND ACQUISITIONS

None.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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33. SEGMENT REPORTING

None.

34. SUBSEQUENT EVENTS

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 450.000.000. The loan 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.

35. DISCONTINUING OPERATIONS

None.

36. OPERATIONAL INCOME

a) Net Sales

	December 31, 2007	December 31, 2006
Export sales	2.036.457	1.753.372
Domestic sales	1.534.689	1.300.788
Total	3.571.146	3.054.160

The amount of discounts from sales is YTL 348.338 (2006 – YTL 277.241)

b) Cost of Sales

	December 31, 2007	December 31, 2006
Direct material expense	2.508.124	2.096.571
Direct labor expense	77.731	67.473
Depreciation and amortization expense	104.899	89.864
Other production expenses	167.538	105.177
Total cost of production	2.858.292	2.359.085
Change in work-in-process	(33.676)	(1.908)
Change in finished goods	(23.764)	3.125
Cost of merchandise sold	411.368	381.208
Cost of other sales	31.664	16.988
Total	3.243.884	2.758.498

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

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36. OPERATIONAL INCOME (continued)

c) Other Income from Operational Activities

	December 31, 2007	December 31, 2006
Income from direct material sales	32.290	18.446
Income from tooling sales	-	741
Income from scrap sales	22.626	15.320
Packaging income	20.981	12.895
Other	10.728	3.569
Total	86.625	50.971

d) Production and Sales Quantities

	Production		Sales	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Doblo	135.241	137.201	134.565	137.410
MCV	10.628	-	9.737	-
Albea	18.006	20.049	17.943	20.140
Palio – Palio Van	4.501	5.668	4.493	5.942
Grande Punto (*)	-	-	8.319	10.574
CKD demonte	17.352	7.296	17.352	7.296
Bird Series	-	1.744	97	1.656
SKD	3.618	5.718	3.768	5.568
Marea	-	689	1	863
Ducato (*)	-	-	4.374	2.745
Punto (*)	-	-	-	255
Strada (*)	-	-	-	504
Idea (*)	-	-	3	393
Alfa Romeo (*)	-	-	653	702
Stilo (*)	-	-	3	146
Panda (*)	-	-	111	275
Sedici (*)	-	-	219	121
Linea	23.147	69	22.485	50
Ferrari (*)	-	-	28	27
Maserati (*)	-	-	28	19
Lancia (*)	-	-	80	1
Scudo (*)	-	-	166	-
Total	212.493	178.434	224.425	194.687

(*) Imported vehicles.

37. OPERATING EXPENSES

	December 31, 2007	December 31, 2006
Selling and marketing expense	172.835	162.583
General and administrative expense	100.154	96.552
Research and development expense	9.967	9.160
Total	282.956	268.295

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

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37. OPERATING EXPENSES (continued)

a) Selling and Marketing Expenses

	December 31, 2007	December 31, 2006
Warranty expenses	7.958	27.880
Personnel expenses	31.135	27.576
Royalty expenses	11.391	13.036
Advertisement expenses	31.424	28.098
Shipment and insurance expenses	22.644	19.253
Packaging expenses	11.463	6.850
Exhibition and fair expenses	6.585	4.713
Sales sponsorship expenses	8.783	3.165
Sales comission expenses	11.594	6.586
Sales research development expenses	3.644	4.039
Other selling and marketing expenses	26.214	21.387
Total	172.835	162.583

b) General and Administrative Expenses

	December 31, 2007	December 31, 2006
Personnel expenses	41.053	34.081
Depreciation and amortization expenses	13.630	18.202
Services obtained from third parties	13.413	18.904
Advertisement and sponsorship expenses	7.619	3.365
Duties, taxes and levies	3.157	2.118
Other general and administrative expenses	21.282	19.882
Total	100.154	96.552

c) Depreciation and Amortization Expenses

	December 31, 2007	December 31, 2006
Cost of production	104.899	89.864
General and administrative expenses	13.630	18.202
Research and development expenses	3.721	845
Total	122.250	108.911

d) Personnel Expenses

	December 31, 2007	December 31, 2006
Wages and salaries	259.789	192.264
Labor expenses charged by subcontractors	1.523	2.786
Other social expenses	21.490	16.324
Total	282.802	211.374

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

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38. OTHER OPERATING INCOME / EXPENSE AND GAIN / LOSS

a) Other Operating Income and Gains

	December 31, 2007	December 31, 2006
Research and development income	7.235	4.573
Rent income	893	1.219
Other	24.119	11.359
Total	32.247	17.151

b) Other Operating Expenses and Losses

As of December 31, 2007, the Group has other operating expenses of YTL 2.116 (December 31, 2006 - YTL 4.158).

39. FINANCIAL INCOME / (EXPENSE), net

	December 31, 2007	December 31, 2006
Financial Income		
Foreign exchange gain	59.121	78.852
Interest income	58.556	103.760
Commission income	8.536	509
Total financial income	126.213	183.121
Financial Expenses		
Foreign exchange loss	(52.713)	(68.220)
Interest expense	(22.017)	(28.630)
Total financial expenses	(74.730)	(96.850)
Financial income, net	51.483	86.271

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 in 2007 and 2006.

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

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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 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.

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.

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. The Group has tax loss carried forwards amounting to YTL 2.366 as of December 31, 2007 (December 31, 2006 – YTL 3.049).

For the years ended December 31, 2007 and 2006, the analysis of the tax expense in the income statement is as follows:

	December 31, 2007	December 31, 2006
Current tax charge	(4.473)	(399)
Deferred tax charge	(33.423)	(96.332)
	(37.896)	(96.731)

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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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 December 31, 2007 and 2006 are as follows:

	December 31, 2007	December 31, 2006
Net income before provision for taxes	213.715	178.606
Income tax charge at effective tax rate	(64.115)	(53.582)
Effect of investment allowances - amount used during current year	19.830	15.208
Effect of change in tax rates	3.708	26.403
Effect of research and development application	6.288	12.011
Effect of unused investment allowances	-	(104.318)
Other	(3.607)	7.547
	(37.896)	(96.731)

42. EARNINGS PER SHARE

Earnings per share are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned. In 2007 and 2006, the weighted average number of shares outstanding is 50.000.000.000 and as of December 31, 2007 and 2006 earnings per share is Yeni Kuruş 0,35 and Yeni Kuruş 0,16, respectively.

43. FINANCIAL RISK MANAGEMENT AND POLICIES

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.

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

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43. FINANCIAL RISK MANAGEMENT AND POLICIES (continued)

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 6 b), 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.

The Group's foreign currency position exposed to foreign currency risk is presented in Note 29. Accordingly, as of December 31, 2007, the effect of 1% increase in foreign exchange rate is increase in net income for the year amounting to YTL 328.

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. The effect of 0,5% increase in interest rates of the loans which bear variable interest rates is decrease in net income for the year amounting to YTL 351.

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.

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 in 2006 and 2007.

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

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43. FINANCIAL RISK MANAGEMENT AND POLICIES (continued)

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 Year	Total
ASSETS AS OF DECEMBER 31, 2007						
Cash and cash equivalents	437.893	-	-	-	-	437.893
Other receivables	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
Other current assets	26.427	-	-	8.287	-	34.714
Available for sale financial assets	-	-	-	-	23.994	23.994
Other non-current assets	-	-	-	-	38	38
Total Assets	696.009	460.138	3.309	32.456	228.935	1.420.847
LIABILITIES AS OF DECEMBER 31, 2007						
Bank borrowings	-	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
Provisions (**)	4.172	-	-	-	-	4.172
Other liabilities	45.836	-	-	-	-	45.836
Total Liabilities	505.123	390.125	145.608	117.481	665.004	1.823.341
Net Liquidity Risk	190.886	70.013	(142.299)	(85.025)	(436.069)	(402.494)

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

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43. FINANCIAL RISK MANAGEMENT AND POLICIES (continued)

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 Year	Total
ASSETS AS OF DECEMBER 31, 2006						
Cash and cash equivalents	518.364	-	-	-	-	518.364
Other receivables	27	140	345	3.341	29.820	33.673
Trade receivables and trade receivables from related parties (*)	506.703	-	-	-	-	506.703
Other current assets	9.758	64.906	-	2.382	-	77.046
Available for sale financial assets	-	-	-	-	23.994	23.994
Other non-current assets	-	-	-	-	42	42
Total Assets	1.034.852	65.046	345	5.723	53.856	1.159.822
LIABILITIES AS OF DECEMBER 31, 2006						
Bank borrowings	-	-	-	70.859	376.499	447.358
Trade payables and trade payables to related parties (*)	124	788.722	-	-	-	788.846
Provisions (**)	3.183	-	-	-	-	3.183
Other liabilities	31.056	-	-	-	-	31.056
Total Liabilities	34.363	788.722	-	70.859	376.499	1.270.443
Net Liquidity Risk	1.000.489	(723.676)	345	(65.136)	(322.643)	(110.621)

(*) Undiscounted amounts.

(**) Amounts excluding warranty provisions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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44. CASH FLOW STATEMENT

	December 31, 2007	December 31, 2006
Cash flows from operating activities		
Net income before provision for taxes	213.715	178.606
Reconciliation between net income before taxation and cash generated from operating activities		
Depreciation and amortization	122.250	108.911
Interest expense	22.017	28.630
Interest income	(58.556)	(103.760)
Provision for employee termination benefits	14.493	10.158
(Gain)/loss on sale of property, plant and equipment	(342)	662
Warranty provision	7.046	25.509
Operating income before working capital changes	320.623	248.716
Net working capital changes in:		
Trade receivables and trade receivables from related parties	(180.552)	(50.233)
Inventories	(127.103)	(8.528)
Other current/non-current assets and other receivables	(158.759)	(81.020)
Trade payables and trade payables to related parties	123.761	304.129
Other current liabilities	36.691	(13.820)
Other non-current liabilities	59.477	20.798
Employee termination benefits paid	(3.526)	(2.571)
Warranty payments	(16.108)	(18.952)
Net cash provided by operating activities	54.504	398.519
Cash flows from investing activities		
Investment securities	-	10.324
Interest received	81.915	112.194
Deposits with maturities over three months	-	25.000
Purchase of property, plant, equipment and intangibles	(523.392)	(545.442)
Proceeds from sale of property, plant and equipment and intangibles	1.803	894
Net cash used in investing activities	(439.674)	(397.030)
Cash flows from financing activities		
Interest paid	(24.952)	(27.786)
Dividend paid	(60.000)	(50.000)
Bank loans received	496.717	278.254
Bank loans repaid	(107.066)	(142.319)
Net cash provided by financing activities	304.699	58.149
Net increase / (decrease) in cash and cash equivalents	(80.471)	59.638
Cash and cash equivalents at the beginning of the year	518.364	458.726
Cash and cash equivalents at the end of the year	437.893	518.364
Taxes paid	3.020	120

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

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45. STATEMENT OF CHANGES IN EQUITY

As of December 31, 2007 and 2006, consolidated shareholders' equity movements are as follows:

	Share Capital	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, 2005	500.000	-	-	18.951	349.535	58.721	857	110.213	1.038.277
Transfers	-	7.741	45.982	-	-	-	56.490	(110.213)	-
Gain on the hedging	-	-	-	-	-	(45.466)	-	-	(45.466)
Dividend distribution	-	-	(35.278)	-	-	-	(14.722)	-	(50.000)
Revaluation surplus of financial assets	-	-	-	(6.690)	-	-	-	-	(6.690)
Net profit for the period	-	-	-	-	-	-	-	81.875	81.875
December 31, 2006	500.000	7.741	10.704	12.261	349.535	13.255	42.625	81.875	1.017.996
Transfers	-	-	-	-	-	-	81.875	(81.875)	-
Transfers to legal reserves	-	8.653	27.205	-	-	-	(35.858)	-	-
Gain on the hedging	-	-	-	-	-	27.330	-	-	27.330
Dividend distribution (*)	-	-	(10.000)	-	-	-	(50.075)	-	(60.075)
Net profit for the period	-	-	-	-	-	-	-	175.819	175.819
December 31, 2007	500.000	16.394	27.909	12.261	349.535	40.585	38.567	175.819	1.161.070

(*) Dividend distributed per share amounts to New Turkish Kuruş 0,1.

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

None.

47. OTHER MATTERS

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 accompanying financial statements. The differences with IFRS mainly related to the application of inflation accounting which was ceased one year later in IFRS, and the presentation of the basic financial statements and the notes to them. 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.