

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN  
TURKISH - SEE NOTE 44 TO THE FINANCIAL STATEMENTS

**Tofaş Türk Otomobil Fabrikası  
Anonim Şirketi**

**Consolidated Financial Statements  
As of March 31, 2008**

**(Convenience Translation of Financial Statements Originally Issued in Turkish - See Note 44 to the Financial Statements)**

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**TABLE OF CONTENTS**

	<u>Pages</u>
Consolidated Balance Sheet	1 - 2
Consolidated Income Statement	3
Notes to the Consolidated Financial Statements	4 - 44

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**CONSOLIDATED BALANCE SHEET**

**As of March 31, 2008**

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

		(Unaudited) Current Period March 31, 2008	(Audited) Prior Period December 31, 2007
	Notes		
<b>ASSETS</b>			
<b>Current Assets</b>		<b>1.769.590</b>	1.472.695
Cash and cash equivalents	6	394.921	437.893
Financial investments	7	58.523	-
Trade receivables			
- Trade receivables from related parties	37	588.332	431.091
- Other trade receivables	10	323.336	254.974
Short-term consumer financing loans	12	24.272	29.865
Other receivables	11	-	-
Inventories	13	345.022	284.158
Biological assets	14	-	-
Other current assets	26	35.184	34.714
<b>Non-current Assets</b>		<b>1.829.225</b>	1.703.561
Trade receivables			
- Trade receivables from related parties	37	-	-
- Other trade receivables	10	-	-
Long-term consumer financing loans	12	247.051	204.903
Other receivables	11	-	-
Financial investments			
- Available for sale financial investments	7	23.994	23.994
- Other financial assets	7	-	-
Investments valued with equity method	16	-	-
Biological assets	14	-	-
Investment properties	17	-	-
Property, plant and equipment	18	991.144	986.746
Intangibles	19	517.369	453.373
Goodwill	20	-	-
Deferred tax asset	35	-	9.451
Other non-current assets	26	49.667	25.094
<b>Total Assets</b>		<b>3.598.815</b>	3.176.256

The accompanying policies and explanatory notes on pages 4 through 44 form and integral part of the consolidated financial statements.

## Tofaş Türk Otomobil Fabrikası Anonim Şirketi

## CONSOLIDATED BALANCE SHEET

As of March 31, 2008

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

	Notes	(Unaudited) Current Period March 31, 2008	(Audited) Prior Period December 31, 2007
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>1.533.418</b>	1.204.955
Short – term bank borrowings	8	201.430	174.865
Other financial liabilities	9	7.869	20.922
Trade payables			
- Trade payables to related parties	37	659.867	489.231
- Other trade payables	10	527.920	419.089
Other payables	11	-	-
Liabilities from finance sector operations	12	-	-
Government incentives and grants	21	-	-
Tax liabilities from net income for the period	35	-	-
Provisions	11	119.916	55.012
Other current liabilities	26	16.416	45.836
<b>Non – current Liabilities</b>		<b>934.962</b>	810.231
Long – term bank borrowings	8	776.138	665.004
Other financial liabilities	9	-	-
Trade payables			
- Trade payables to related parties	37	-	-
- Other trade payables	10	-	-
Other payables	11	-	-
Liabilities from finance sector operations	12	-	-
Government incentives and grants	21	77.740	80.275
Provisions	11	-	-
Reserve for retirement pay	24	68.297	64.952
Deferred tax liability	35	12.787	-
Other non – current liabilities		-	-
<b>Shareholders' Equity</b>		<b>1.130.435</b>	1.161.070
<b>Parent Company's Equity</b>			
Paid – in share capital	27	500.000	500.000
Adjustments to share capital and equity instruments (-)		-	-
Inflation adjustment on equity items	27	349.535	349.535
Share premium		-	-
Revaluation surplus of financial investments	7	12.261	12.261
Foreign currency translation adjustment		-	-
Cumulative gain on the hedging		(74.084)	40.585
Restricted reserves	27	16.394	16.394
Retained earnings	27	242.295	66.476
Net income for the period		84.034	175.819
Minority interest		-	-
<b>Total Liabilities and Shareholders' Equity</b>		<b>3.598.815</b>	3.176.256

The accompanying policies and explanatory notes on pages 4 through 44 form and integral part of the consolidated financial statements.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**CONSOLIDATED INCOME STATEMENT**

**For the period ended March 31, 2008**

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

		(Unaudited) Current Period March 31, 2008	(Unaudited) Prior Period March 31, 2007
<b>CONTINUING OPERATIONS</b>			
Net sales	28	<b>1.309.873</b>	733.332
Cost of sales (-)	28	<b>(1.185.305)</b>	(665.015)
Gross profit(loss) from business activities		<b>124.568</b>	68.317
Interest, fee, premium, commission and other income		<b>12.703</b>	2.908
Interest, fee, premium, commission and other expense (-)		<b>(10.465)</b>	(1.885)
Gross profit (loss) from finance sector operations		<b>2.238</b>	1.023
<b>GROSS PROFIT/LOSS</b>		<b>126.806</b>	69.340
Selling, marketing and distribution expense (-)	29	<b>(42.611)</b>	(31.760)
General and administrative expense (-)	29	<b>(26.595)</b>	(22.137)
Research and development expense (-)	29	<b>(4.506)</b>	(2.036)
Other operating income	31	<b>7.504</b>	7.036
Other operating expense (-)	31	<b>(131)</b>	(666)
<b>OPERATING PROFIT/LOSS</b>		<b>60.467</b>	19.777
Shares of profit / loss from investments valued with equity method		-	-
Non-operating financial income	32	<b>144.085</b>	23.204
Non-operating financial expense (-)	33	<b>(119.087)</b>	(7.861)
<b>NET INCOME BEFORE PROVISION FOR TAXES FROM CONTINUING OPERATIONS</b>		<b>85.465</b>	35.120
<b>Tax income/expense for continuing operations</b>			
- Tax income/expense for the period	35	-	-
- Deferred tax income/expense	35	<b>(1.431)</b>	(5.831)
<b>CONTINUING OPERATIONS NET INCOME</b>		<b>84.034</b>	29.289
<b>DISCONTINUING OPERATIONS</b>			
<b>Net income / expense after provisions for taxes from discontinuing operations</b>		-	-
<b>NET INCOME/EXPENSE</b>		<b>84.034</b>	29.289
<b>Distribution of net income/expense for the period</b>			
Minority interest		-	-
Shares of parent company		<b>84.034</b>	29.289
<b>Earnings per share</b>	36	<b>0,17</b>	0,06
<b>Earnings per share from continuing operations</b>		<b>0,17</b>	0,06

The accompanying policies and explanatory notes on pages 4 through 44 form and integral part of the consolidated financial statements.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As of March 31, 2008**

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

**1. CORPORATE INFORMATION**

Tofaş Türk Otomobil Fabrikası A.Ş. (a Turkish corporation, the Company - Tofaş) was established in 1968 as a Turkish-Italian cooperation venture. The core business of the Company is manufacturing, exporting and selling passenger cars and light commercial vehicles under licenses of Fiat Auto S.p.A. (Fiat). The Company, which is a member of Koç Holding A.Ş. (Koç Holding) and Fiat, also produces various automotive spare parts used in its automobiles. The Company's head office is located at Büyükdere Cad. No: 145 Zincirlikuyu Şişli, İstanbul. The manufacturing facilities are located at Bursa. The Company manufactures its cars pursuant to license agreements between the Company and Fiat. 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 37).

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

Name of the Company	Operating Area	Percentage of Ownership	
		March 31, 2008	December 31, 2007
Koç Fiat Kredi Tüketici Finansmanı A.Ş. (KFK)	Consumer financing	99,9%	99,9%
Mekatro Araştırma Geliştirme A.Ş.	Research and development	97,0%	97,0%
Platform Araştırma Geliştirme Tasarım ve Tic. A.Ş. (Platform)	Research and development	99,0%	99,0%
Fer Mas Oto Ticaret A.Ş.	Trading of automobile and spare parts	99,4%	99,4%

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

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

	March 31, 2008	December 31, 2007
Blue-collar	7.401	5.251
White-collar	1.303	1.234
<b>Total number of personnel</b>	<b>8.704</b>	<b>6.485</b>

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

The financial statements of the Group have been prepared in accordance with accounting and reporting standards (CMB Accounting Standards) as prescribed by Turkish Capital Market Board (CMB). CMB has issued communiqué no. XI-25 “Communiqué on Accounting Standards in Capital Markets” which sets out a comprehensive set of accounting principles. In this Communiqué, CMB stated that alternatively application of accounting standards prescribed by the International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC) will also be considered to be compliant with CMB Accounting Standards. On March 17, 2005, CMB has issued a resolution and declared that application of inflation accounting is no longer required for companies operating in Turkey and reporting under CMB Accounting Standards, with effect from January 1, 2005. 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 in communiqué no. XI-29 “Communiqué on Financial Reporting Standards in Capital Markets” on April 9, 2008.

The consolidated financial statements were authorized for issue on May 5, 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 March 31, 2008 and December 31, 2007 are derived by indexing the additions occurred until December 31, 2004. The additions after December 31, 2004 are carried with their nominal amounts.

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

**Basis of Consolidation**

The control relation is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. During consolidation inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using consistent accounting policies for similar transactions and other events in similar circumstances.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Summary of Material Accounting Policies**

**Cash and Cash Equivalents**

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

**Financial Investments**

Financial investments include the portion of time deposits with maturities exceeding three months.

**Available for sale financial investments, 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 is designated as the stock exchange closing value at the balance sheet date. Gains or losses on re-measurement to fair value are recognized as a separate component of equity, under revaluation surplus of financial investments.

**Loans (Consumer Financing Loans)**

Consumer financing loans originated by the wholly owned subsidiary KFK and classified as consumer financing loans 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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, Plant and Equipment**

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

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

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

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

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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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.

**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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Borrowing Costs**

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

**Fair Value of Financial Instruments**

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

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

*Financial Assets*

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

*Financial Liabilities*

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

**Income Taxes**

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

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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employee Benefits**

*Defined Benefit Plans*

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

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

*Defined Contribution Plans*

The Group is obliged to pay premiums to Social Security Agency for its employees during the period of employment. The Group does not have any further obligation as long as it realizes the payment of such premiums. Social security premiums are reflected in the personnel expenses as they accrue. In the first quarter of 2008, the Group had social security premium expenses amounting to YTL 11.630 (March 31, 2007 - YTL 7.392).

**Earnings per Share**

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

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

**Subsequent Events**

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

**Provisions, Contingent Assets and Liabilities**

*Provisions*

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

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

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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.

**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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

**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.

**Government Incentives and Grants**

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

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**3. MERGERS AND ACQUISITIONS**

None.

**4. BUSINESS ASSOCIATIONS**

None.

**5. SEGMENT REPORTING**

None.

**6. CASH AND CASH EQUIVALENTS**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Cash on hand	<b>38</b>	43
Cash at banks		
- demand deposits	<b>57.038</b>	52.901
- time deposits	<b>338.173</b>	385.109
Payment orders	<b>(328)</b>	(160)
<b>Total</b>	<b>394.921</b>	437.893

The breakdown of time deposits is as follows:

	<b>March 31, 2008</b>		<b>December 31, 2007</b>	
	<b>Amount (YTL Equivalent)</b>	<b>Effective interest rate per annum (%)</b>	<b>Amount (YTL Equivalent)</b>	<b>Effective interest rate per annum (%)</b>
Denominated in YTL	<b>151.566</b>	<b>15,7-17,6</b>	302.182	12 19,2
Denominated in USD	<b>313</b>	<b>3,5</b>	1.043	5
Denominated in EUR	<b>186.294</b>	<b>3,8-4,7</b>	81.884	3,4 5
<b>Total</b>	<b>338.173</b>		385.109	

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

As of March 31, 2008, the cash at banks comprise deposits amounting to YTL 293.047 (December 31, 2007 – YTL 317.091) which are deposited at a bank which is related party of the Group.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****As of March 31, 2008****(Currency – Thousands of New Turkish Liras (YTL))****7. FINANCIAL INVESTMENTS****a) Short - Term Financial Investments**

Short-term financial investments represent the portion of time deposits with maturities exceeding three months as of March 31, 2008 amounting to YTL 58.523 ( December 31, 2007 - None).

**b) Available For Sale Financial Investments**

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

	Percentage of Interest	March 31, 2008	December 31, 2007
Entek Elektrik Üretimi A.Ş. (Entek)	13,33%	<b>23.994</b>	23.994
		<b>23.994</b>	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 March 31, 2008 and December 31, 2007.

**8. FINANCIAL LIABILITIES****a) Short-term Bank Borrowings**

	March 31, 2008			December 31, 2007		
	Amount in Thousands (Original currency)	Amount (YTL Equivalent)	Effective interest rate per annum (%)	Amount in Thousands (Original currency)	Amount (YTL Equivalent)	Effective interest rate per annum (%)
Short-term bank borrowings						
Denominated in YTL	-	<b>20.198</b>	<b>12-17,34</b>	-	46.741	13 – 17,05
Denominated in EUR	<b>2.100</b>	<b>4.233</b>	<b>5,19-5,9</b>	2.100	3.591	4,84 – 5,57
Denominated in USD(*)	<b>15.000</b>	<b>19.148</b>	<b>5,8-6,52</b>	-	-	-
Accrued interest		<b>492</b>			705	
Current portion of long- term bank borrowings		<b>157.359</b>			123.828	
<b>Total</b>		<b>201.430</b>			<b>174.865</b>	

## Tofaş Türk Otomobil Fabrikası Anonim Şirketi

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2008

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

## 8. FINANCIAL LIABILITIES (continued)

## b) Long-term Bank Borrowings

	March 31, 2008			December 31, 2007		
	Amount in Thousands (Original currency)	Amount (YTL Equivalent)	Amount in Thousands (Original currency)	Amount (YTL Equivalent)	Amount in Thousands (Original currency)	Amount (YTL Equivalent)
Long-term bank borrowings						
Denominated in EUR	347.411	700.241	6 months Euribor-0,073%	361.993	619.080	6 months Euribor-0,073%
			6 months Euribor+1,34%			6 months Euribor+1,34%
Denominated in USD(*)	119.625	152.701	5,80 – 6,52	115.000	133.941	5,80 – 6,52
Denominated in YTL(*)		30.000	16,40 – 21,20	-	29.465	16,40 – 21,20
Accrued interest		18.898			6.346	
Commercial paper (**)		31.657	17,81		-	-
Less: Current portion of long-term bank borrowings		(157.359)			(123.828)	
Total		776.138			665.004	

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

(\*\*) As of March 31, 2008, commercial paper amounting to YTL 31.657, with nominal value amounting to YTL 40.000 and 540 days maturity, has been issued by KFK.

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

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

	March 31, 2008	December 31, 2007
1 - 5 years	537.103	462.187
5 years and more	207.378	202.817
	744.481	665.004

Repayment of the long-term loans amounting to YTL 637.427 (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.

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, which has not been used as of the report date, 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.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**9. OTHER FINANCIAL LIABILITIES**

As of March 31, 2008, other financial liabilities reflect calculated fair value of swap transactions of KFK, wholly owned subsidiary.

**10. TRADE RECEIVABLES AND PAYABLES**

**a) Trade Receivables**

	<b>March 31, 2008</b>	December 31, 2007
Trade receivables	<b>324.808</b>	255.962
Doubtful trade receivables	<b>487</b>	486
	<b>325.295</b>	256.448
Less: Provision for doubtful receivables	<b>(485)</b>	(484)
Less: Discount	<b>(1.474)</b>	(990)
<b>Total</b>	<b>323.336</b>	254.974

As of March 31, 2008, the letter of guarantees, guarantee notes and direct debit system limit (\*) obtained as collateral for trade receivables amounting to YTL 115.418, YTL 10.772 and YTL 220.510, respectively (December 31, 2007 - letter of guarantees amounting to YTL 112.280 and guarantee notes amounting to YTL 10.670 and direct debit system limit amounting to YTL 220.830).

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

As of March 31, 2008 the maturity profiles of trade receivables are summarized as follows:

	Neither past due nor impaired	Overdue but not doubtful receivables					Total
		Up to 1 Month	1 to 2 Months	2 to 3 Months	3 to 4 Months	Over 4 Months	
<b>March 31, 2008</b>	<b>300.612</b>	<b>23.587</b>	<b>448</b>	-	<b>161</b>	-	<b>324.808</b>
December 31, 2007	243.956	11.553	89	81	-	283	255.962

**b) Trade Payables**

	<b>March 31, 2008</b>	December 31, 2007
Trade payables	<b>531.057</b>	420.858
Less: Discount	<b>(3.137)</b>	(1.769)
<b>Total</b>	<b>527.920</b>	419.089

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**11. OTHER RECEIVABLES AND PAYABLES**

**a) Short-term Provisions**

	<b>March 31, 2008</b>	December 31, 2007
Warranty provision	<b>50.690</b>	50.840
Provision for sales discount	<b>22.872</b>	157
Provision for price differences	<b>16.567</b>	46
Sales expense provision	<b>7.543</b>	-
Royalty expense provision	<b>3.005</b>	-
Personnel wage provision	<b>4.902</b>	-
Services from third parties	<b>2.596</b>	4
Legal and consultancy expense provision	<b>1.640</b>	1.200
Other	<b>10.101</b>	2.765
<b>Total</b>	<b>119.916</b>	55.012

The warranty provision movement for the periods ended March 31, 2008 and 2007 is as follows:

	<b>March 31, 2008</b>	March 31, 2007
Balance as of January 1	<b>50.840</b>	59.902
Utilized	<b>(3.674)</b>	(3.888)
Provision for the year	<b>3.524</b>	2.983
<b>March 31</b>	<b>50.690</b>	58.997

**b) Long-term Provisions**

None.

**12. RECEIVABLES FROM FINANCE SECTOR OPERATIONS**

	<b>March 31, 2008</b>	December 31, 2007
Short-term consumer financing loans	<b>22.366</b>	28.548
Non-performing loans	<b>6.987</b>	5.907
	<b>29.353</b>	34.455
Provision for loan impairment	<b>(5.081)</b>	(4.590)
<b>Total</b>	<b>24.272</b>	29.865
Long-term consumer financing loans	<b>247.051</b>	204.903
<b>Total</b>	<b>247.051</b>	204.903

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**12. RECEIVABLES FROM FINANCE SECTOR OPERATIONS (continued)**

As of March 31, 2008, YTL loans originated by the Group bear monthly fixed interest rates ranging between 1,20% -2,05% per month (December 31, 2007 - 1,20% - 2,05%).

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

<b>Years</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
1 to 2 years	<b>94.550</b>	71.196
2 to 3 years	<b>98.236</b>	86.543
3 years and more	<b>54.265</b>	47.164
<b>Total</b>	<b>247.051</b>	204.903

Movements in the allowance for loan impairment for March 31, 2008 and 2007 are as follows:

	<b>March 31, 2008</b>	<b>March 31, 2007</b>
January 1,	<b>4.590</b>	2.859
Charge for the period	<b>491</b>	296
Recoveries from loans under follow-up	-	(62)
<b>March 31</b>	<b>5.081</b>	3.093

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.

**13. INVENTORIES**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Raw materials, net of reserve for obsolescence of YTL 1.836 (December 31, 2007 - YTL 1.069)	<b>85.962</b>	96.108
Work-in-process	<b>38.379</b>	53.503
Finished goods, net of reserve for obsolescence of YTL 326 (December 31, 2007 - YTL 445)	<b>36.215</b>	36.266
Spare parts	<b>23.148</b>	21.380
Imported vehicles, net of reserve for obsolescence of YTL 360 (December 31, 2007 - YTL 265)	<b>32.923</b>	30.639
Goods-in transit	<b>128.395</b>	46.262
<b>Total</b>	<b>345.022</b>	284.158

(Convenience Translation of Financial Statements Originally Issued in Turkish – See Note 44)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**As of March 31, 2008**  
**(Currency – Thousands of New Turkish Liras (YTL))**

**14. BIOLOGICAL ASSETS**

None.

**15. ASSETS RELATED WITH CONSTRUCTION PROJECTS IN PROGRESS**

None.

**16. INVESTMENTS VALUATED WITH EQUITY METHOD**

None.

**17. INVESTMENT PROPERTIES**

None.

(Convenience Translation of Financial Statements Originally Issued in Turkish – See Note 44)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**18. PROPERTY, PLANT AND EQUIPMENT**

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

	Land, Land Improvements and Buildings	Machinery and Equipment	Moulds and Models	Furniture and Fixture	Motor Vehicles	Leasehold Improvements	Construction in Progress	Total
At December 31, 2007, net of accumulated depreciation	130.823	386.725	288.610	61.110	10.086	6.063	103.329	986.746
Additions	-	-	-	60	1.280	-	38.831	40.171
Disposals	-	-	-	(66)	(165)	-	-	(231)
Transfers	2	471	7.587	4.764	-	-	(12.824)	-
Accumulated depreciation of disposals	-	-	-	66	64	-	-	130
Depreciation charge for the period	(1.329)	(7.648)	(22.700)	(2.900)	(892)	(203)	-	(35.672)
<b>At March 31, 2008, net of accumulated depreciation</b>	<b>129.496</b>	<b>379.548</b>	<b>273.497</b>	<b>63.034</b>	<b>10.373</b>	<b>5.860</b>	<b>129.336</b>	<b>991.144</b>
<b>At March 31, 2008</b>								
Cost	296.018	1.179.827	1.243.974	231.686	32.255	8.013	129.336	3.121.109
Accumulated depreciation	(166.522)	(800.279)	(970.477)	(168.652)	(21.882)	(2.153)	-	(2.129.965)
<b>At March 31, 2008, net carrying amount</b>	<b>129.496</b>	<b>379.548</b>	<b>273.497</b>	<b>63.034</b>	<b>10.373</b>	<b>5.860</b>	<b>129.336</b>	<b>991.144</b>

(Convenience Translation of Financial Statements Originally Issued in Turkish – See Note 44)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**18. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

	Land, Land Improvements and Buildings	Machinery and Equipment	Moulds and Models	Furniture and Fixture	Motor Vehicles	Leasehold Improvements	Construction in Progress	Total
At December 31, 2006, net of accumulated depreciation	111.342	146.305	134.633	31.056	6.418	6.066	245.169	680.989
Additions	-	24	244	1.229	562	6	62.030	64.095
Disposals	-	-	-	-	(89)	-	-	(89)
Transfers	-	-	-	-	-	-	-	-
Accumulated depreciation of disposals	-	-	-	-	39	-	-	39
Depreciation charge for the period	(1.144)	(5.228)	(13.559)	(1.889)	(591)	(197)	-	(22.608)
<b>At March 31, 2007, net of accumulated depreciation</b>	<b>110.198</b>	<b>141.101</b>	<b>121.318</b>	<b>30.396</b>	<b>6.339</b>	<b>5.875</b>	<b>307.199</b>	<b>722.426</b>
<b>At March 31, 2007</b>								
Cost	271.831	942.421	1.026.338	200.674	27.553	7.234	307.199	2.783.250
Accumulated depreciation	(161.633)	(801.320)	(905.020)	(170.278)	(21.214)	(1.359)	-	(2.060.824)
<b>At March 31, 2007, net carrying amount</b>	<b>110.198</b>	<b>141.101</b>	<b>121.318</b>	<b>30.396</b>	<b>6.339</b>	<b>5.875</b>	<b>307.199</b>	<b>722.426</b>

**Restrictions on Assets**

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

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**19. INTANGIBLES**

During the period ended March 31, 2008 and 2007, the movement of intangibles is as follows:

	License Fee and Development Costs	Others	Total
At December 31, 2007, net of accumulated amortization	441.589	11.784	<b>453.373</b>
Additions	76.942	2.624	<b>79.566</b>
Amortization charge for the period	(15.293)	(277)	<b>(15.570)</b>
<b>At March 31, 2008, net of accumulated amortization</b>	<b>503.238</b>	<b>14.131</b>	<b>517.369</b>
<b>At March 31, 2008</b>			
Cost	674.033	30.650	<b>704.683</b>
Accumulated amortization	(170.795)	(16.519)	<b>(187.314)</b>
<b>At March 31, 2008, net carrying amount</b>	<b>503.238</b>	<b>14.131</b>	<b>517.369</b>

	License Fee and Development Costs	Others	Total
At December 31, 2006, net of accumulated amortization	307.398	6.622	314.020
Additions	19.685	70	19.755
Amortization charge for the period	(3.372)	(203)	(3.575)
<b>At March 31, 2007, net of accumulated amortization</b>	<b>323.711</b>	<b>6.489</b>	<b>330.200</b>
<b>At March 31, 2007</b>			
Cost	466.223	21.871	488.094
Accumulated amortization	(142.512)	(15.382)	(157.894)
<b>At March 31, 2007, net carrying amount</b>	<b>323.711</b>	<b>6.489</b>	<b>330.200</b>

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 19.120, 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.

**20. GOODWILL**

None.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**21. GOVERNMENT INCENTIVES**

**Investment Incentive Certificates**

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

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

The amount of investment allowances used in 2008 is YTL 82.880 (March 31, 2007 - YTL 45.983). As of March 31, 2008 the amount of unused investment allowances is YTL 1.841.472 (March 31, 2007 - YTL 1.619.102). Based on the projections prepared by the Group management, the investment allowance to be utilized until December 31, 2008 is estimated as YTL 249.527.

As of March 31, 2008 other long-term liabilities of the Group amounting to YTL 77.740 has been originated from deferral of research and development incentive premiums provided to support research and development expenditures of Mini Cargo project by the Scientific & Technological Research Council of Turkey (Tübitak). The related balance will be recognized as revenue in line with the amortization terms of the research and development investments (December 31, 2007 – YTL 80.275).

**22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

**Litigations**

As of March 31, 2008 the total amount of outstanding legal claims brought against the Group is YTL 1.993 (December 31, 2007 - YTL 1.955). The Group has reflected a reserve amounting to YTL 1.640 (December 31, 2007 - YTL 1.200) in the financial statements.

**Bank Letters of Guarantee**

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

		<b>March 31, 2008</b>	December 31, 2007
a) Letters of guarantee given to banks, customs and suppliers	YTL	<b>32</b>	4
	USD	-	100.000
	EUR	<b>2.000.000</b>	2.000.000
b) Guarantee notes given for short-term and long-term bank borrowings	YTL	<b>18.885</b>	29.400
c) Other	YTL	<b>3.007</b>	802

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)**

**Other**

The Group has USD 2.203 million of export commitments to be realized before September 30, 2008. In connection with these export incentive certificates USD 1.370 million of the commitments has been realized as of March 31, 2008. (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 March 31, 2008, the unused letter of credit issued for the purchase of raw materials and supplies amounts to Euro 14.281.804 (December 31, 2007 – Euro 7.081.939). As of March 31, 2008, the unused letter of credit issued for the purchase of fixed assets amounts to Euro 1.950.065 (December 31, 2007 - Euro 8.837.352).

The consolidated subsidiaries KFK and Platform have signed a suretyship agreement which guarantees the payments of long-term bank borrowings amounting to Euro 350 million.

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

**23. COMMITMENTS**

None.

**24. EMPLOYEE BENEFITS**

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 2.088 (in full YTL)) (December 31, 2007 - YTL 2.030 (in full YTL)) per year of employment at the rate of pay applicable at the date of retirement or termination.

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

	<b>March 31, 2008</b>	December 31, 2007
Discount rate	<b>5,71%</b>	5,71%
Estimated turnover rate for retirement	<b>99%</b>	99%

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**24. EMPLOYEE BENEFITS (continued)**

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

	<b>March 31, 2008</b>	March 31, 2007
Balance as of January 1	<b>64.952</b>	53.985
Interest expense	<b>1.949</b>	1.619
Payments	<b>(1.319)</b>	(567)
Charge for the period (including actuarial gain/loss)	<b>2.715</b>	3.712
<b>March 31 balance</b>	<b>68.297</b>	58.749

**25. EMPLOYEE PENSION PLANS**

None.

**26. OTHER ASSETS AND LIABILITIES**

**a) Other Current Assets**

	<b>March 31, 2008</b>	December 31, 2007
Prepaid expenses	<b>3.732</b>	840
VAT deductible	<b>19.694</b>	20.251
Accrued income	<b>583</b>	5.173
Other	<b>11.175</b>	8.450
	<b>35.184</b>	34.714

**b)** As of March 31, 2008, the Group has other non-current assets amounting to YTL 49.667 of which the portion YTL 49.625 constitutes fixed asset purchase advances. (December 31, 2007 - YTL 25.094).

**c) Other Payables**

	<b>March 31, 2008</b>	December 31, 2007
Taxes and funds payable	<b>1.393</b>	25.582
Social securities payable	<b>8.331</b>	7.709
Payable to personnel	<b>6.003</b>	10.546
Other	<b>689</b>	1.999
<b>Total</b>	<b>16.416</b>	45.836

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**27. SHAREHOLDERS' EQUITY**

**a) Minority Interest**

None.

**b) Share Capital/Adjustments To Share Capital And Equity Investments**

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

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

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

**c) Capital Reserves**

The effect of restatement of share capital included in the balance sheet as of March 31, 2008 and December 31, 2007 consists of the following:

	March 31, 2008	December 31, 2007
Issued share capital	348.382	348.382
Statutory inflation adjustment which was not offset	1.153	1.153
Total	349.535	349.535

**d) Legal Reserves - Retained Earnings**

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

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**27. SHAREHOLDERS' EQUITY (continued)**

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

Based on the CMB Decree 7/242, dated February 25, 2005, if the amount of profit distributions calculated in accordance with the net distributable profit requirements of the CMB does not exceed the statutory net distributable profit the whole amount of distributable profit should be distributed. If it exceeds the statutory net distributable profit, the whole amount of the statutory net distributable profit should be accordance with CMB regulations or in the statutory financial statements.

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.

At the General Assembly meeting held on April 24, 2008, it has been decided to distribute dividend in cash amounting to YTL 90.000, after the deduction of legal reserves from the net profit of the year 2007.

**28. SALES AND COST OF SALES**

**a) Net Sales**

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Export sales	<b>895.438</b>	469.090
Domestic sales	<b>381.585</b>	247.969
Other income from operational activities	<b>32.850</b>	16.273
<b>Total</b>	<b>1.309.873</b>	733.332

The amount of sales discounts is YTL 77.496 (March 31, 2007 - YTL 56.182).

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**28. SALES AND COST OF SALES (continued)**

**b) Cost of Sales**

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Direct material expense	<b>924.664</b>	520.316
Direct labor expense	<b>26.967</b>	17.266
Depreciation and amortization expense	<b>46.997</b>	21.056
Other production expenses	<b>55.593</b>	35.123
Total cost of production	<b>1.054.221</b>	593.761
Change in work-in-process	<b>15.960</b>	(6.538)
Change in finished goods	<b>170</b>	(6.970)
Cost of merchandise sold	<b>99.677</b>	79.116
Cost of other sales	<b>15.277</b>	5.646
Total	<b>1.185.305</b>	665.015

**c) Other Income from Operational Activities**

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Income from direct material sales	<b>14.961</b>	6.411
Income from scrap sales	<b>9.733</b>	4.718
Packaging income	<b>7.312</b>	4.468
Other	<b>844</b>	676
Total	<b>32.850</b>	16.273

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**28. SALES AND COST OF SALES (continued)**

**d) Production and Sales Quantities**

	<b>Production</b>		<b>Sales</b>	
	<b>January 1 - March 31, 2008</b>	<b>January 1 - March 31, 2007</b>	<b>January 1 - March 31, 2008</b>	<b>January 1 - March 31, 2007</b>
Doblo	<b>34.775</b>	33.008	<b>34.858</b>	32.431
MCV	<b>31.476</b>	16	<b>31.032</b>	-
Albea	<b>2.682</b>	3.625	<b>2.852</b>	3.699
Palio – Palio Van	<b>451</b>	544	<b>655</b>	648
Grande Punto (*)	-	-	<b>1.720</b>	1.349
CKD dismantled	<b>6.672</b>	2.016	<b>6.672</b>	1.920
Kuş Serisi	-	-	-	97
SKD	-	3.270	-	3.288
Ducato (*)	-	-	<b>853</b>	971
Alfa Romeo (*)	-	-	<b>70</b>	80
Panda (*)	-	-	<b>33</b>	17
Sedici (*)	-	-	<b>27</b>	17
Linea	<b>4.451</b>	171	<b>4.475</b>	19
Ferrari (*)	-	-	<b>4</b>	6
Maserati (*)	-	-	<b>1</b>	4
Lancia (*)	-	-	<b>9</b>	-
Scudo (*)	-	-	<b>206</b>	-
Bravo (*)	-	-	<b>514</b>	-
<b>Total</b>	<b>80.507</b>	42.650	<b>83.981</b>	44.546

(\*) Imported vehicles.

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

	<b>January 1 - March 31, 2008</b>	<b>January 1 - March 31, 2007</b>
Selling and marketing expenses	<b>42.611</b>	31.760
General and administrative expenses	<b>26.595</b>	22.137
Research and development expenses	<b>4.506</b>	2.036
<b>Total</b>	<b>73.712</b>	55.933

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2008

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

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

a) Selling and Marketing Expenses

	January 1 - March 31, 2008	January 1 - March 31, 2007
Warranty expenses	2.523	3.452
Personnel expenses	8.306	7.580
Royalty expenses	3.005	2.424
Advertisement expenses	8.770	5.571
Shipment and insurance expenses	5.937	4.525
Packaging expenses	3.136	1.776
Sales commission expenses	3.130	282
Other selling and marketing expenses	7.804	6.150
<b>Total</b>	<b>42.611</b>	<b>31.760</b>

b) General and Administrative Expenses

	January 1 - March 31, 2008	January 1 - March 31, 2007
Personnel expenses	10.430	7.708
Depreciation and amortization expenses	936	4.914
Services obtained from third parties	4.106	3.126
Advertisement and sponsorship expenses	1.195	1.257
Duties, taxes and levies	1.584	304
Other general and administrative expenses	8.344	4.828
<b>Total</b>	<b>26.595</b>	<b>22.137</b>

30. EXPENSES AS TO NATURE

a) Depreciation and Amortization Expenses

	January 1 - March 31, 2008	January 1 - March 31, 2007
Cost of production	46.997	21.056
General and administrative expenses	936	4.914
Research and development expenses	3.309	213
<b>Total</b>	<b>51.242</b>	<b>26.183</b>

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**30. EXPENSES AS TO NATURE (continued)**

**b) Personnel Expenses**

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Wages and salaries	<b>79.330</b>	55.774
Labor expenses charged by subcontractors	<b>367</b>	384
Other social expenses	<b>6.829</b>	3.971
<b>Total</b>	<b>86.526</b>	60.129

**31. OTHER OPERATING INCOME / EXPENSE**

**a) Other Operating Income and Gains**

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Research and development income	<b>2.675</b>	3.101
Rent income	<b>52</b>	280
Other	<b>4.777</b>	3.655
<b>Total</b>	<b>7.504</b>	7.036

**b) Other Operating Expenses and Losses**

As of March 31, 2008, the Group has other operating expenses of YTL 131 (March 31, 2007 - YTL 666).

**32. FINANCIAL INCOME**

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Foreign exchange gain	<b>128.701</b>	9.963
Interest income	<b>15.384</b>	13.241
<b>Total financial income</b>	<b>144.085</b>	23.204

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**33. FINANCIAL EXPENSE**

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Foreign exchange loss	<b>(97.662)</b>	(1.359)
Interest expense	<b>(21.425)</b>	(6.502)
<b>Total financial expenses</b>	<b>(119.087)</b>	(7.861)

**34. ASSETS HELD FOR SALE AND DISCONTINUING OPERATIONS**

None.

**35. TAX ASSETS AND LIABILITIES**

**a) General**

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

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

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%.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**35. TAX ASSETS AND LIABILITIES (continued)**

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

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

For the three month periods ended March 31, 2008 and 2007, the analysis of the tax expense in the income statement is as follows:

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Current tax charge	-	-
Deferred tax charge	<b>(1.431)</b>	(5.831)
	<b>(1.431)</b>	(5.831)

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

	<b>January 1 - March 31, 2008</b>	January 1 - March 31, 2007
Net income before provision for taxes	<b>85.465</b>	35.120
Income tax charge at effective tax rate	<b>(25.460)</b>	(10.535)
Effect of investment allowances - amount used during current period	<b>24.864</b>	13.795
Effect of unused investment allowances	-	(4.691)
Other	<b>(835)</b>	(4.400)
	<b>(1.431)</b>	(5.831)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**35. TAX ASSETS AND LIABILITIES (continued)**

**b) Deferred Tax Assets and Liabilities**

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

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	March 31, 2008	December 31, 2007	March 31, 2008	December 31, 2007
Employee termination benefits	(68.297)	(64.952)	13.659	12.990
Warranty provision	(48.677)	(50.840)	11.612	15.252
Temporary differences arising between tax and book bases of property, plant and equipment and intangibles and inventories	351.705	421.074	(65.530)	(76.121)
Cumulative gain on the hedging	61.854	(34.335)	(12.231)	8.111
Cumulative gain on KFK swap transactions	(7.869)	(20.922)	1.574	4.184
Deferred income	(49.811)	(50.497)	10.441	10.693
Unused investment allowances (Note 21)	(249.527)	(332.407)	25.452	33.906
Unused tax loss carryforward of KFK	(8.572)	-	1.714	-
Other temporary differences	(2.850)	(1.639)	522	436
<b>Deferred tax liability, net</b>			<b>(12.787)</b>	<b>9.451</b>

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

	March 31, 2008	March 31, 2007
Deferred tax asset at beginning of the period	9.451	37.656
Deferred tax credit / (charge) for the period	(1.431)	(5.831)
Amount accounted under equity	(20.807)	182
<b>March 31 balance</b>	<b>(12.787)</b>	<b>32.007</b>

**36. EARNINGS PER SHARE**

Earnings per share are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned. In 2008 and 2007, the weighted average number of shares outstanding is 50.000.000.000 and as of March 31, 2008 and 2007 earnings per share is Yeni Kuruş 0,17 and Yeni Kuruş 0,06, respectively.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**37. RELATED PARTY DISCLOSURES**

**Related party balances**

	<b>March 31, 2008</b>	December 31, 2007
<b>Due from related parties</b>		
Fiat	<b>522.811</b>	357.666
Otokoç A.Ş. (Otokoç - Subsidiary of Koç Holding A.Ş.) (*)	<b>68.087</b>	75.396
Other	<b>115</b>	416
	<b>591.013</b>	433.478
Less: Discount	<b>(2.681)</b>	(2.387)
<b>Total</b>	<b>588.332</b>	431.091

(\*) Formerly Birmot A.Ş.

	<b>March 31, 2008</b>	December 31, 2007
<b>Due to related parties</b>		
Fiat	<b>630.669</b>	439.339
Mako Elektrik Sanayi ve Ticaret A.Ş. (Mako - Associate company of Fiat)	<b>13.093</b>	19.246
Comau S.p.A. (Associate company of Fiat)	<b>8.457</b>	8.786
Elasis Societa Consortile per Azioni – (Elasis –Associate company of Fiat)	<b>3.127</b>	3.062
Other	<b>8.726</b>	21.251
	<b>664.072</b>	491.684
Less: Discount	<b>(4.205)</b>	(2.453)
<b>Total</b>	<b>659.867</b>	489.231

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**37. RELATED PARTY DISCLOSURES (continued)**

<b>Related party transactions</b>	<b>January 1- March 31, 2008</b>	<b>January 1- March 31, 2007</b>
<b>Sales</b>		
Fiat	<b>612.161</b>	412.826
Otokoç	<b>109.616</b>	75.577
Other	<b>1.378</b>	1.664
<b>Total</b>	<b>723.155</b>	490.067
<b>Domestic purchases</b>		
Mako	<b>20.755</b>	20.656
Zer Merkezi Hizmetler ve Ticaret A.Ş. (formerly Beko Ticaret Anonim Şirketi )(*)	<b>5.404</b>	5.363
Entek Elektrik Üretimi Otoprodüktör Grubu A.Ş. - Participation of Tofaş	<b>4.885</b>	4.885
Ram Sigorta Aracılık A.Ş. (*)	<b>3.984</b>	3.945
Other	<b>7.293</b>	1.608
<b>Total</b>	<b>42.321</b>	36.457

(\*) Subsidiary of Koç Holding A.Ş.

<b>Foreign Purchases</b>	<b>January 1-March 31, 2008</b>		<b>January 1-March 31, 2007</b>	
	<b>Materials and Services</b>	<b>Tangible and Intangible Assets</b>	<b>Materials and Services</b>	<b>Tangible and Intangible Assets</b>
Fiat	<b>441.140</b>	-	298.901	2.418
Comau S.p.A.	<b>813</b>	-	37	8.463
Other	<b>3.533</b>	-	6.249	-
<b>Total</b>	<b>445.486</b>	-	305.187	10.881

Interest and other income from related parties for the period ended March 31, 2008 amounts to YTL 10.773 (March 31, 2007 - YTL 14.403).

Salaries and similar benefits paid to the top management in the first quarter of 2008 (23 people) (March 31, 2007 - 19 people) amounts to YTL 1.955 (March 31, 2007 - YTL 1.468).

Furthermore, as of March 31, 2008, wholly owned subsidiary KFK has entered into swap transactions with Yapı ve Kredi Bankası A.Ş. amounting to USD 25.000.000 which has a maturity on March 2009. It is accounted under other financial liabilities with a carrying amount of YTL 3.236.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**38. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

**Financial Risk Management Objectives and Policies**

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

**Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of the counterparties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit screening procedures and the Group also obtains collaterals from customers when appropriate. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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

**Foreign Currency Risk**

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

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

*Overall;*

	<b>March 31, 2008</b> <b>(YTL Equivalent)</b>	December 31, 2007 (YTL Equivalent)
A. Foreign currency assets	<b>960.241</b>	593.571
B. Foreign currency liabilities	<b>(1.555.593)</b>	(1.189.798)
<b>Net foreign currency position (A+B)</b>	<b>(595.352)</b>	(596.227)

## Tofaş Türk Otomobil Fabrikası Anonim Şirketi

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2008

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

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

*Detailed Foreign Currency Position;*

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

	March 31, 2008					
	USD (thousand)	YTL Equivalent	Euro (thousand)	YTL Equivalent	Other Foreign Currencies YTL Equivalent	Total YTL Equivalent
Cash and cash equivalents	266	339	139.870	281.921	-	282.260
Trade receivables (including due from related parties)	5.303	6.769	328.661	662.450	-	669.219
Other current assets	8	11	885	1.784	-	1.795
Long-term consumer financing loans	-	-	3.457	6.967	-	6.967
<b>Total YTL equivalent of foreign currency assets</b>		<b>7.119</b>		<b>953.122</b>	<b>-</b>	<b>960.241</b>
Short-term bank borrowings	-	-	353.483	712.481	-	712.481
Trade payables (including due to related parties)	315	402	415.816	838.119	78	838.599
Other liabilities	-	-	2.239	4.513	-	4.513
<b>Total YTL equivalent of foreign currency liabilities</b>		<b>402</b>		<b>1.555.113</b>	<b>78</b>	<b>1.555.593</b>
<b>Net foreign currency position</b>		<b>6.717</b>		<b>(601.991)</b>	<b>(78)</b>	<b>(595.352) (*)</b>
	December 31, 2007					
	USD (thousand)	YTL Equivalent	Euro (thousand)	YTL Equivalent	Other Foreign Currencies YTL Equivalent	Total YTL Equivalent
Cash and cash equivalents	937	1.091	73.907	126.396	-	127.487
Trade receivables (including due from related parties)	2.705	3.151	268.776	459.661	-	462.812
Other current assets	-	-	199	341	-	341
Long-term consumer financing loans	-	-	1.714	2.931	-	2.931
<b>Total YTL equivalent of foreign currency assets</b>		<b>4.242</b>		<b>589.329</b>	<b>-</b>	<b>593.571</b>
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
<b>Total YTL equivalent of foreign currency liabilities</b>		<b>277</b>		<b>1.189.468</b>	<b>53</b>	<b>1.189.798</b>
<b>Net foreign currency position</b>		<b>3.965</b>		<b>(600.139)</b>	<b>(53)</b>	<b>(596.227) (*)</b>

(\*) As explained in Note 8, the Group's exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in Euro are undertaken by Fiat and PSA. Accordingly, net foreign currency exposure of the Group excluding such borrowings as of March 31, 2008 is YTL 110.998 foreign currency asset position (December 31, 2007 - YTL 32.799, foreign currency asset position).

Accordingly, as of March 31, 2008, the effect of 1% increase in foreign exchange rate is increase in net income for the period amounting to YTL 1.110.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

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

**Interest Rate Risk**

Interest rate risk stems from the probability of an impact of rate changes on financial accounts. The Group is exposed to interest rate risk due to maturity mismatch or differences of the assets and liabilities that are re-priced or matured in a specific period. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. The effect of 0,5% increase in interest rates of the loans which bear variable interest rates is decrease in net income for the period amounting to YTL 1.074.

**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 as of March 31, 2008.

## Tofaş Türk Otomobil Fabrikası Anonim Şirketi

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2008

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

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

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<b>ASSETS AS OF MARCH 31, 2008</b>						
Cash and cash equivalents	394.921	-	-	-	-	394.921
Consumer financing loans	119	1.136	3.513	19.504	247.051	271.323
Trade receivables and trade receivables from related parties (*)	549.546	356.431	1.536	-	-	907.513
Other current assets	27.931	-	-	7.253	-	35.184
Financial investments	-	-	-	58.523	23.994	82.517
Other non-current assets	-	-	-	-	49.667	49.667
<b>Total Assets</b>	<b>972.517</b>	<b>357.567</b>	<b>5.049</b>	<b>85.280</b>	<b>320.712</b>	<b>1.741.125</b>
<b>LIABILITIES AS OF MARCH 31, 2008</b>						
Bank borrowings	-	33.849	32.253	135.328	776.138	977.568
Other financial liabilities	-	7.869	-	-	-	7.869
Trade payables and trade payables to related parties (*)	743.336	373.377	78.416	-	-	1.195.129
Provisions (**)	69.226	-	-	-	-	69.226
Other liabilities	16.416	-	-	-	-	16.416
<b>Total Liabilities</b>	<b>828.978</b>	<b>415.095</b>	<b>110.669</b>	<b>135.328</b>	<b>776.138</b>	<b>2.266.208</b>
<b>Net Liquidity Risk</b>	<b>143.559</b>	<b>(57.528)</b>	<b>(105.620)</b>	<b>(50.048)</b>	<b>(455.426)</b>	<b>(525.083)</b>
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<b>ASSETS AS OF DECEMBER 31, 2007</b>						
Cash and cash equivalents	437.893	-	-	-	-	437.893
Consumer financing loans	1.171	1.216	3.309	24.169	204.903	234.768
Trade receivables and trade receivables from related parties (*)	230.518	458.922	-	-	-	689.440
Other current assets	26.427	-	-	8.287	-	34.714
Financial investments	-	-	-	-	23.994	23.994
Other non-current assets	-	-	-	-	25.094	25.094
<b>Total Assets</b>	<b>696.009</b>	<b>460.138</b>	<b>3.309</b>	<b>32.456</b>	<b>253.991</b>	<b>1.445.903</b>
<b>LIABILITIES AS OF DECEMBER 31, 2007</b>						
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
<b>Total Liabilities</b>	<b>505.123</b>	<b>390.125</b>	<b>145.608</b>	<b>117.481</b>	<b>665.004</b>	<b>1.823.341</b>
<b>Net Liquidity Risk</b>	<b>190.886</b>	<b>70.013</b>	<b>(142.299)</b>	<b>(85.025)</b>	<b>(411.013)</b>	<b>(377.438)</b>

(\*) Undiscounted amounts.

(\*\*) Amounts excluding warranty provisions.

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

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

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

Financial Assets -- Monetary assets for which the fair value approximates carrying value, balances denominated in foreign currencies are translated at year-end exchange rates. The fair values of financial assets carried at cost are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

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

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

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

**40. SUBSEQUENT EVENTS**

At the General Assembly meeting held on April 24, 2008, it has been decided to distribute dividend in cash amounting to YTL 90.000, after the deduction of legal reserves from the net profit of the year 2007. The date of the dividend distribution is determined as May 12, 2008.

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

None.

## Tofaş Türk Otomobil Fabrikası Anonim Şirketi

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2008

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

## 42. CASH FLOW STATEMENT

	March 31, 2008	March 31, 2007
<b>Cash flows from operating activities</b>		
Net income before provision for taxes	85.465	35.120
<b>Reconciliation between net income before taxation and cash generated from operating activities</b>		
Depreciation and amortization	51.242	26.183
Interest expense	21.425	6.502
Interest income	(15.384)	(13.960)
Provision for employee termination benefits	4.664	5.331
(Gain)/loss on sale of property, plant and equipment	1	2
Warranty provision	3.524	2.983
<b>Operating income before working capital changes</b>	<b>150.937</b>	<b>62.161</b>
<b>Net working capital changes in :</b>		
Trade receivables and trade receivables from related parties	(225.603)	63.408
Inventories	(60.864)	(38.343)
Other current/non-current assets and other receivables	(61.598)	(63.452)
Trade payables and trade payables to related parties	279.467	(102.684)
Other current liabilities	22.581	39.877
Other non-current liabilities	(2.535)	-
Employee termination benefits paid	(1.319)	(567)
Warranty payments	(3.674)	(3.888)
<b>Net cash provided by/(used in) operating activities</b>	<b>97.392</b>	<b>(43.488)</b>
<b>Cash flows from investing activities</b>		
Interest received	14.042	8.973
Deposits with maturities over three months	(58.523)	-
Purchase of property, plant, equipment and intangibles	(119.737)	(95.782)
Proceeds from sale of property, plant and equipment and intangibles	100	52
<b>Net cash used in investing activities</b>	<b>(164.118)</b>	<b>(86.757)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(9.086)	(5.083)
Bank loans received	56.890	4.000
Bank loans repaid	(55.707)	(7.725)
Commercial papers issued	31.657	-
<b>Net cash provided by/(used in) financing activities</b>	<b>23.754</b>	<b>(8.808)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(42.972)</b>	<b>(139.053)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>437.893</b>	<b>518.364</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>394.921</b>	<b>379.311</b>
Taxes paid	-	-

(Convenience Translation of Financial Statements Originally Issued in Turkish – See Note 44)

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**43. STATEMENT OF CHANGES IN EQUITY**

As of March 31, 2008 and 2007, consolidated shareholders' equity movements are as follows:

	Paid – in Share Capital	Restricted Reserves	Revaluation Surplus of Financial Investments	Inflation Adjustment Effect on Nominal Equity Items	Cumulative Gain on the Hedging	Accumulated Profits / (Loss)	Net Income for the Period	Total Shareholders' Equity
<b>December 31, 2006</b>	500.000	7.741	12.261	349.535	13.255	53.329	81.875	1.017.996
Transfers	-	-	-	-	-	81.875	(81.875)	-
Gain on the hedging	-	-	-	-	1.402	-	-	1.402
Revaluation surplus of financial assets	-	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	-	29.289	29.289
<b>March 31, 2007</b>	500.000	7.741	12.261	349.535	14.657	135.204	29.289	1.048.687
<b>December 31, 2007</b>	<b>500.000</b>	<b>16.394</b>	<b>12.261</b>	<b>349.535</b>	<b>40.585</b>	<b>66.476</b>	<b>175.819</b>	<b>1.161.070</b>
Transfers	-	-	-	-	-	175.819	(175.819)	-
Gain/(loss) on the hedging	-	-	-	-	(114.669)	-	-	(114.669)
Revaluation surplus of financial assets	-	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	-	84.034	84.034
<b>March 31, 2008</b>	<b>500.000</b>	<b>16.394</b>	<b>12.261</b>	<b>349.535</b>	<b>(74.084)</b>	<b>242.295</b>	<b>84.034</b>	<b>1.130.435</b>

**Tofaş Türk Otomobil Fabrikası Anonim Şirketi**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As of March 31, 2008**

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

**44. 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.