

FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS FOR THE PERIOD
1 JANUARY - 31 MARCH 2019**

(ORIGINALLY ISSUED IN TURKISH)

FORD OTOMOTİV SANAYİ A.Ş.

FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2019

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FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019 AND 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

	Notes	Current period unaudited 31 March 2019	Previous period audited 31 December 2018
Assets			
Current assets		8,946,171	7,395,461
Cash and cash equivalents	4	2,105,155	1,392,772
Trade receivables			
- Due from related parties	26	2,519,694	2,082,263
- Due from third parties	7	1,073,563	1,058,926
Other receivables			
- Due from third parties	8	5,831	2,788
Inventories	9	2,047,564	1,864,645
Prepaid expenses	12	52,362	74,375
Other current assets	16	1,140,224	919,692
Assets related to current period tax	24	1,778	-
Non-current assets		6,008,478	5,788,979
Financial assets	5	14,749	12,408
Trade receivables			
- Due from third parties	7	2,984	2,954
Property, plant and equipment	10	4,010,650	3,922,747
Intangible assets	11	825,513	823,342
Right of use assets	33	126,267	-
Prepaid expenses	12	367,145	382,420
Deferred tax assets	24	660,269	644,175
Investments accounted for by the equity method	32	901	933
Total assets		14,954,649	13,184,440

Financial statements for the period ended 1 January - 31 March 2019 were approved for issue by the Board of Directors on 29 April 2019.

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019 AND 31 DECEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	Current period unaudited 31 March 2019	Previous period audited 31 December 2018
Liabilities			
Current liabilities		9,267,844	7,219,612
Short-term borrowings			
- Bank borrowings	6	2,689,729	2,030,806
Short-term portion of long-term borrowings			
- Bank borrowings	6	825,817	773,457
- Lease liabilities	6	35,100	-
Trade payables			
- Due to related parties	26	980,206	703,567
- Due to third parties	7	3,501,315	3,319,120
Other payables			
- Due to related parties	26	856,608	31,321
- Due to third parties	8	63,697	34,661
Deferred income	30	12,293	13,219
Short-term provisions			
- Other provisions	13	178,009	155,227
Employee benefit liabilities	15	124,972	149,611
Current tax liabilities	24	-	8,530
Derivative financial liabilities	28	98	93
Non-current liabilities		2,195,571	2,071,589
Long-term borrowings			
- Bank borrowings	6	1,718,911	1,678,554
- Lease liabilities	6	71,358	-
Long-term provisions			
- Provision for employment termination benefits	15	211,171	196,368
- Other provisions	13	133,078	136,680
Deferred income	30	7,841	7,479
Other non-current liabilities	31	53,212	52,508
Equity	17	3,491,234	3,893,239
Paid-in capital		350,910	350,910
Inflation adjustments on capital		27,920	27,920
Share premium		8	8
Other comprehensive income / (loss) not to be reclassified under profit or loss			
- Losses on remeasurements of defined benefit plans		11,799	(279)
- Gains from financial assets measured at fair value through other comprehensive income		13,083	10,859
Other comprehensive income/(loss) to be reclassified in profit or loss			
- Losses on cash flow hedges		(835,843)	(794,287)
Restricted reserves		454,116	370,599
Retained earnings		2,991,281	2,244,313
Net profit for the period		477,960	1,683,196
Total liabilities and equity		14,954,649	13,184,440

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE PERIODS ENDED 31 MARCH 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	Current period unaudited 1 January - 31 March 2019	Previous period unaudited 1 January - 31 March 2018
Continuing operations			
Revenue	18	9,284,052	7,282,010
Cost of sales	18	(8,340,280)	(6,524,689)
Gross profit		943,772	757,321
Marketing expenses	19	(151,014)	(118,113)
General administrative expenses	19	(86,188)	(74,953)
Research and development expenses	19	(103,943)	(98,580)
Other income from operating activities	21	162,216	148,573
Other expenses from operating activities	21	(161,586)	(100,886)
Profit from operating activities		603,257	513,362
Income from investing activities	29	422	410
Expenses from investing activities	29	(876)	(1,480)
Share of profit/(loss) of investments accounted for by the equity method	32	(32)	-
Operating income before financial income/(expense)		602,771	512,292
Financial income	22	109,550	106,305
Financial expenses	23	(235,662)	(177,245)
Profit from continuing operations before tax		476,659	441,352
Tax income/(expense) from continuing operations		1,301	(9,087)
Tax expenses for the period	24	(6,661)	(5,381)
Deferred tax (expense)/income	24	7,962	(3,706)
Net profit		477,960	432,265
Earnings per share with a nominal value Kr	25	1.36 Kr	1.23 Kr

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 MARCH 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

	Notes	Current period unaudited 1 January - 31 March 2019	Previous period unaudited 1 January - 31 March 2018
Net profit		477,960	432,265
Other comprehensive income/(expense)			
Other comprehensive income not to be reclassified to profit or loss			
Gains/(losses) on remeasurements of defined benefit plans	17	15,097	(1,753)
Gains/(losses) from financial assets measured at fair value through other comprehensive income	17	2,341	(1,351)
Other comprehensive income taxes not to be reclassified to profit or loss			
Taxes relating to remeasurements of defined benefit plans	17	(3,019)	351
Taxes relating to gains/(losses) from financial assets measured at fair value through other comprehensive income	17	(117)	68
Other comprehensive income to be reclassified to profit or loss			
Other comprehensive income relating to cash flow hedges	17	(52,824)	(125,583)
Other comprehensive income taxes to be reclassified to profit or loss			
Taxes relating to cash flow hedges	17	11,268	27,603
Other comprehensive (loss)		(27,254)	(100,665)
Total comprehensive income		450,706	331,600

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS 31 MARCH 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

	Paid in capital	Inflation adjustments on capital	Share premium	Other comprehensive income not to be reclassified in profit or loss	Other comprehensive income to be reclassified in profit or loss	Cash flow hedge reserve	Restricted reserves	Retained earnings		Total equity
				Gain/(losses) from financial assets measured at fair value through other comprehensive income	Gains/(losses) on remeasurements defined benefit plans			Accumulated profit	Net profit	
Balances at 1 January 2018	350,910	27,920	8	15,608	(14,001)	(503,120)	254,404	2,074,147	1,489,983	3,695,859
Profit for the period	-	-	-	-	-	-	-	-	432,265	432,265
Other comprehensive income/(loss)	-	-	-	(1,283)	(1,402)	(97,980)	-	-	-	(100,665)
Total comprehensive income	-	-	-	(1,283)	(1,402)	(97,980)	-	-	432,265	331,600
Transfers	-	-	-	-	-	-	78,253	1,411,730	(1,489,983)	-
Dividends (Note 17)	-	-	-	-	-	-	-	(800,075)	-	(800,075)
Balances at 31 March 2018	350,910	27,920	8	14,325	(15,403)	(601,100)	332,657	2,685,802	432,265	3,227,384
Balances at 1 January 2019	350,910	27,920	8	10,859	(279)	(794,287)	370,599	2,244,313	1,683,196	3,893,239
Profit for the period	-	-	-	-	-	-	-	-	477,960	477,960
Other comprehensive income/(loss)	-	-	-	2,224	12,078	(41,556)	-	-	-	(27,254)
Total comprehensive income	-	-	-	2,224	12,078	(41,556)	-	-	477,960	450,706
Transfers	-	-	-	-	-	-	83,517	1,599,679	(1,683,196)	-
Dividends (Note 17)	-	-	-	-	-	-	-	(852,711)	-	(852,711)
Balances at 31 March 2019	350,910	27,920	8	13,083	11,799	(835,843)	454,116	2,991,281	477,960	3,491,234

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED 31 MARCH 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

	Notes	Current period unaudited 31 March 2019	Previous period unaudited 31 March 2018
Cash flows generated from/(used in) operating activities		436,603	241,963
Net profit for the period		477,960	432,265
Adjustments to reconcile profit or loss		494,894	289,642
Adjustments for depreciation and amortisation expense	10, 11, 33	178,053	128,162
Adjustments for impairment loss of inventories	9	(749)	463
Adjustments for provisions related with employee benefits		10,249	(41,280)
Adjustments for lawsuit and/or penalty provisions	13	3,304	3,687
Adjustments for warranty provisions	13	50,621	25,042
Adjustments for other provisions		5,077	5,256
Adjustments for dividend income	29	(422)	(410)
Adjustments for interest income	22	(31,358)	(20,032)
Adjustments for interest expense	23	17,619	10,994
Adjustments for tax expenses	24	(1,301)	9,087
Adjustments for unearned financing income	21	(50,603)	(40,348)
Adjustments for deferred financing expense	21	144,594	65,337
Adjustments for loss on sales of property, plant and equipment	29	876	1,480
Other adjustments for which cash effects are investing or financing cash flow		168,902	142,204
Undistributed profits of investments accounted for by the equity method	32	32	-
Changes in working capital		(377,049)	(396,268)
Decrease/(increase) in trade receivable		(450,284)	415,897
(Increase)/decrease in inventories		(182,170)	(687,938)
(Increase)/decrease in prepaid expenses		16,771	(163,570)
Increase/(decrease) in trade payable		460,452	145,354
(Increase)/decrease in other assets		(223,570)	(108,919)
Increase/(decrease) in other liabilities		1,752	2,908
Cash flows generated from operations		595,805	325,639
Interest paid		(146,408)	(71,491)
Interest received		48,985	38,903
Payments related with provisions for employee benefits	15	(4,988)	(4,711)
Payments related with other provisions		(39,822)	(26,866)
Taxes paid		(16,969)	(19,511)
Cash flows used in investing activities		(259,537)	(207,157)
Proceeds from sales of property, plant and equipment		787	1,579
Purchase of property, plant and equipment		(222,359)	(102,453)
Purchase of intangible assets		(36,670)	(48,006)
Cash advances given and payables		(1,717)	(58,687)
Dividends received	29	422	410
Cash flows (used in)/generated from financing activities		532,818	200,543
Proceeds from borrowings		1,358,524	766,004
Cash outflows related to borrowings		(836,159)	(576,413)
Interest paid		(7,072)	(14,316)
Interest received		28,859	25,268
Cash outflows on debt payments from leasing agreements		(11,334)	-
Net (decrease)/increase in cash and cash equivalents		709,884	235,349
Cash and cash equivalents at the beginning of the period		1,391,021	1,802,917
Cash and cash equivalents at the end of the period	4	2,100,905	2,038,266

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

1. ORGANIZATION AND NATURE OF THE OPERATIONS

Ford Otomotiv Sanayi A.Ş. (the “Company”) is incorporated and domiciled in Turkey and manufactures, assembles and sells motor vehicles, primarily commercial vehicles, imports and sells passenger cars and manufactures and imports and sells spare parts of those vehicles. The Company was established in 1959 and presently operates as a joint venture between Ford Motor Company and the Koç Group of Companies. The Company is listed on the Borsa İstanbul (“BİST”) where 17.89% of its shares are currently quoted. The registered office address of the Company is Akpınar Mahallesi, Hasan Basri Cad. No: 2 Sancaktepe, İstanbul.

In its Kocaeli compound; the Company has a Gölçük plant in which the Transit and Transit Custom vehicles are manufactured and a Yeniköy plant in which the Transit Courier vehicle is manufactured and in its Eskişehir İnönü compound; a Cargo truck plant and engines and powertrain plant which manufactures for trucks and Transit vehicles.

Additionally, the Company has a spare part distribution warehouse, sales and marketing departments and a research and development (R&D) centre located in Sancaktepe, İstanbul.

The number of the personnel employed with respect to categories by the Company as of period ends are as follows:

	Average		Period End	
	2019 March	2018 March	2019 March	2018 December
Hourly	8,048	8,614	8,052	8,086
Salaried	2,487	2,625	2,470	2,512
	10,535	11,239	10,522	10,598

Research and development operations which are also subject to service export is conducted with 1,041 employees in Sancaktepe branch, conducted with 227 employees in R&D centre in Kocaeli plant, and conducted with 108 employees in R&D centre in Eskişehir İnönü plant, totally 1,376 employees as of 31 March 2019 (31 December 2018: 1,413).

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

Financial reporting standards

The Company maintain its legal books of account and prepare their statutory financial statements (“Statutory Financial Statements”) in accordance with accounting principles issued by the Turkish Commercial Code (“TCC”) and tax legislation.

The financial statements of the Group have been prepared in accordance with the Turkish Financial Reporting Standards, (“TFRS”) and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) in line with the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board of Turkey (“CMB”) on June 13, 2013 which is published on Official Gazette numbered 28676.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

The financial statements are presented in accordance with “Announcement regarding with TAS Taxonomy” which was published on 2 June 2016 by POA and the format and mandatory information recommended by CMB.

Except for the financial assets and derivative instruments measured at fair value through other comprehensive income, the financial statements are prepared on a historical cost basis.

Company’s functional and presentation currency is accepted as TRY.

Going concern

The financial statements of the Company are prepared on the basis of a going concern assumption.

Comparatives of prior periods’ financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company at 31 March 2019 has been provided with the comparative financial information of 31 December 2018 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the interim period between 1 January and 31 March 2019 have been provided with the comparative financial information, for the period between 1 January 2018 and 31 March 2018.

2.2 Amendments and interpretations in the standards

The new standards, amendments and interpretations

The Company has applied the new and revised standards and interpretations issued by the KGK as of 1 January 2019 and related to its own activity.

- (a) The new standards, amendments and interpretations which are effective as at 31 March 2019 are as follows:
- Amendment to TFRS 9, ‘Financial instruments’; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39. The amendments will not have an impact on the financial position or performance of the Company.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY - 31 MARCH 2019**

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

- Amendment to TAS 28, ‘Investments in associates and joint venture’; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9. The amendments will not have an impact on the financial position or performance of the Company.
- TFRS 16, ‘Leases’; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15 ‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. As of the report date, the Company’s studies on the impact of TFRS 16 on financial statements are ongoing. The Company’s activities as a lessor are not material.
- IFRIC 23, ‘Uncertainty over income tax treatments’; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37, ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

- Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - TFRS 3, ‘Business combinations’, - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - TFRS 11, ‘Joint arrangements’, - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - TAS 12, ‘Income taxes’ - a company accounts for all income tax consequences of dividend payments in the same way.
 - TAS 23, ‘Borrowing costs’ - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The Company is in the process of assessing the impact of the standard on its financial position and performance.

- Amendments to TAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement’; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

- (b) The new standards, amendments and interpretations which are not yet effective as at 31 March 2019 are as follows:

The Company is in the process of assessing the impact of the standard on its financial position and performance.

- Effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, ‘Presentation of financial statements’ and TAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other TFRSs.
 - i) use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting.
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in TAS 1 about immaterial information.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

- Amendments to TFRS 3 - definition of a business; Effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

2.3 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents include cash on hand, deposits at banks and highly liquid short-term investments, with maturity periods of less than three months, which has insignificant risk of change in fair value (Note 4).

Trade receivables, impairment loss and expected credit losses

Trade receivables as a result of providing goods or services by the Company directly to a debtor are carried at amortized cost. Short-term receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant. Foreign exchange gain/loss and credit finance income of trade receivables are classified under "other operating income/expense".

Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for receivables, debtors, other than the key accounts and related parties, are assessed with their prior year performances, their credit risk in the current market, and their performance after the statement of the financial position date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.

A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the impairment amount decreases due to an event occurring after the write-down, the release of the provision is credited to operating income in the current period

The Company measures the allowance for trade receivables at an amount equal to the "expected lifetime credit losses" (except for realized impairment losses) where the trade receivables are not impaired for some reason. Expected credit losses are a weighted estimate of the likelihood of credit losses over the expected life of a financial instrument. In the calculation of expected credit losses, the Company takes into account future credit loss experience as well as forecasts for the future.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

The Company uses a provisioning matrix to measure the expected credit losses on trade receivables. Depending on the number of days the maturities of trade receivables are exceeded, certain maturity ratios are calculated and these ratios are reviewed at each reporting period and revised where necessary. Expected credit losses are accounted for under "other income / expense from operating activities" in the income statement.

The Company collects receivables arising from domestic vehicles and spare parts sales through the "Direct Debit System" (DDS). Within this system which is also named as Direct Collection System; the contracted banks warrant the collection of the receivables within the limits granted to the dealers. Trade receivables are transferred by the contracted banks to the Company's bank accounts at the due dates (Notes 7 and 26).

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is determined on the moving monthly average basis. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads and exclude the cost of borrowing. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Idle time expenses arising from the ceases in production other than planned in the factory's annual production plan are not associated with inventories and are recognized as cost of sales (Note 9).

Trade payables

Trade payables are recognized at initial cost and subsequently measured at amortized cost using effective interest rate method (Notes 7 and 26). Foreign exchange gain/loss and credit finance charges of trade payables are classified under "other operating income/expense".

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets.

The depreciation periods for property and equipment, which approximate the economic useful lives of assets concerned, are as follows:

Land improvements	14,5 - 30 year
Buildings	14,5 - 36 year
Machinery and equipment	5 - 25 year
Moulds and models	Project lifetime
Furniture and fixtures	4 - 14,5 year
Motor vehicles	9 - 15 year

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(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Land is not depreciated as it is deemed to have an indefinite useful life.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amounts and are included in income/expense from investing activities. Repair and maintenance expenses are charged to the statement of profit or loss as they are incurred. Repair and maintenance expenditures are capitalized if they result in an enlargement or substantial improvement of the respective asset (Note 10).

Intangible assets

Intangible assets comprise computer software, rights, leasehold improvements and development costs.

Intangible assets are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over a period depending on the project’s lifetime. Development costs, comprising of engineering design incurred for the production of new commercial vehicles, are capitalized as discussed in Note 2 Research and development expenses (Note 11).

The estimated useful lifetimes of such assets are as follows:

Rights	3-5 year
Capitalized improvement expenses	Project lifetime
Other intangible assets	5 year

Impairment of long-lived assets

All assets are reviewed for impairment losses including property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s net selling price and value in use. Impairment losses are recognized in the statement of profit or loss. Impairment losses on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

Financial assets

Classification and Measurement

The Company classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value through other comprehensive income, financial assets carried at fair value through profit or loss. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

"Financial assets carried at amortized cost", assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. The Group's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position. The aforementioned assets are initially measured at fair values and measured at amortized cost using the effective interest rate method in subsequent reporting. Gains and losses resulting from the valuation of non-derivative financial assets measured at amortized cost are recognized in the income statement.

"Financial assets carried at fair value through profit or loss", they consist of financial assets that are measured at amortized cost and whose fair value changes are reflected in other comprehensive income. Gains and losses arising from the valuation of such assets are recognized in the income statement.

"Financial assets carried at fair value through other comprehensive income", are the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on the related financial assets are recognized in other comprehensive income, except for impairment losses or gains or losses. If the assets whose fair value difference is recognised under consolidated other comprehensive income statement are sold, valuation differences classified under consolidated other comprehensive income statement are classified under "Retained Earnings/(Losses)".

At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument. If an entity makes the election, it shall recognise in profit or loss dividends from that investment.

Share Premium

Share premium represents differences resulting from the sale of the Company's subsidiaries and associates' shares at a price exceeding the face values of those shares or differences between the face values and the fair value of shares issued for acquired companies.

Share capital and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends payable are recognized as an appropriation of profit in the period in which they are declared (Notes 17 and 29).

Taxes on income

Taxes include current period income taxes and deferred taxes.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Current period income tax

Current year tax liability consists of tax liability on the taxable income calculated according to currently enacted tax rates and to the effective tax legislation as of statement of financial position date.

Deferred tax

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax bases of assets and liabilities comprise of the amounts that will affect the future period tax charges based on the tax legislation. Currently enacted tax rates, which are expected to be effective during the periods when the deferred tax assets will be utilized or deferred tax liabilities will be settled, are used to determine deferred income tax.

Deferred tax liability is calculated on all taxable temporary differences whereas deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporarily differences can be utilized. Carrying values of deferred tax assets are decreased to the extent necessary, if future taxable profits are not expected to be available to utilize deferred tax assets partially or fully.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (Note 24).

Current and deferred tax

Current and deferred taxes except those which are either related to the items directly recognized in the equity as receivable or payable (which, in such cases, the deferred tax regarding the related items are also recognized directly in the equity) or those which result from the initial recognition of an enterprise merger are recognized as income or loss in the income statement.

Revenue recognition

The Company adopted TFRS 15 “ Revenue From Contracts with Customers” from 1 January 2018 which proposes a five step model framework mentioned below for recognizing the revenue.

- Identification of customer contracts,
- Identification of performance obligations
- Determination of transaction price in the contract,
- Allocation of price to performance obligations,
- Recognition of revenue when the performance obligations are fulfilled.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

The Company recognized revenue from its customers only when all of the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- Company can identify each party’s rights regarding the goods or services to be transferred,
- Company can identify the payment terms for the goods or services to be transferred,
- The contract has commercial substance,
- It is probable that Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer

Goods & services sales

Revenue comprises the invoiced value for the sale of goods and services. Revenues are recognized on an accrual basis at the fair values incurred or to be incurred when the goods are delivered, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity.

For domestic vehicle and spare parts sales, significant risk and rewards are transferred to the buyer when goods are delivered and received by the buyer or when the legal title is passed to the buyer. But if the Company makes a sales agreement with buyback commitment, which shall most likely be applied, the sales made in this scope are not recognized as revenue and monitored under “Other Non-Current Liabilities” (Note 31). Sales, which are subject to buyback commitment, are evaluated as operating lease and monitored as deferred income through allocating the difference between the price paid by the customers and their buyback price to leasing period. (Note 30). The revenue recognised on lease revenue for the periods over 1 year is recognized as “Long term deferred revenue” (Note 30). The vehicles with repurchase commitments are classified in tangible assets (Note 10). The vehicles are amortised during the repurchase commitment period. For export sales significant risk and rewards are transferred to the buyer on FAS, “Final Assignment to Ship” terms. Exported service sales are recorded when the service is delivered and the amount of revenue can be measured reliably.

Net sales represent the invoiced value of goods shipped less sales returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on an accrual basis (Notes 18 and 21).

When another party is involved in providing goods or services to a customer, the group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for the other party to provide those goods or services. The Company is a principal if it controls a promised good or service before the Company transfers the good or service to a customer. When a Company that is a principal satisfies a performance obligation, it recognizes as revenue the gross amount of consideration which it expects to be entitled to in exchange for those goods or services. The Company is an agent if its performance obligation is to arrange for the provision of goods or services by another party.

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(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

The Company is an agent if the performance obligation is to act as an intermediary for the provision of goods or services by other parties and does not reflect the revenue for the performance obligation to the financial statements.

The Company pays customer premiums to its dealers based on their performance results. Amounts calculated as of the balance sheet date are recognized in other payables in the balance sheet and in revenue as discounts in revenue in the statement of profit or loss

The Company provides legal warranty commitment to its customers depending on the type of goods and the location of sale between 2-4 years. These legal warranty commitments are mandatory by regulations, have not a separate price apart from the good and are not separately sold.

Revenue from extended warranty and maintenance package

The Company sells extended warranty to its customer for the period after the termination of legal warranty provided for all goods. The price of extended warranty and maintenance package are determined separately from the price of the goods and it is a separate performance obligation in the contract. Therefore, the Company treats the service that will be provided due to the sale of extended warranty as a separate performance obligation.

The Company determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. The Company delivers the control of services related to the sale of extended warranty and maintenance packages over time and it fulfills the performance obligation of those over time. Therefore, Company measures the delivery status of its performance obligation and recognize revenue in the consolidated financial statements accordingly.

Dividend and interest income

Dividend income from the stock investments are recorded when the stockholders become entitled to receive a dividend. Interest income is realized on a time period basis and the accrued income is determined by taking into account the valid interest rate and the interest rate that is to be effective until its maturity date.

Foreign currency transactions and balances

Transactions 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 into TRY at the Central Bank of Turkey exchange rates prevailing at the statement of the financial position dates. Foreign currency exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized under the other operating income/expenses and financial income/expense in the statement of profit or loss (Notes 21, 22, 23 and 27).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Foreign currency exchange rates used by the Company at the time of statement of financial position dates are as follows:

	TRY/USD	TRY/EUR	TRY/GBP
31 March 2019	5,6284	6,3188	7,3354
31 December 2018	5,2609	6,0280	6,6528
31 March 2018	3,9489	4,8673	5,5385

Financial instruments and financial risk management

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. All trade receivables are due mainly from dealers and related parties. The Company has established effective control procedures over its dealers and the credit risk arising from transactions with such dealers is regularly monitored by management and the aggregate risk to any individual counterparty is limited. The Company covered its credit risk from domestic vehicle sales to dealers by setting credit limits for dealers through arranged banks and collects its trade receivables from banks at the due date through the use of Direct Debit System. The use of DDS for receivables from dealers is an effective way to decrease the credit risk.

Bank letters of collaterals received from dealers for the exceeding part of DDS limit, regarding domestic vehicle sales and spare part sales is another method in the management of the credit risk (Note 7).

Conditions are specified in the business agreements with Ford Motor Company. Receivables from Ford Motor Company and its subsidiaries are collected in 14 days for export vehicle sales regularly. Receivables from Ford Motor Company and its subsidiaries, except vehicle sales, are collected in 45 days in average. The collection of receivables resulting from export sales to customers other than Ford Motor Company is secured with letter of credit, letter of guarantee or cash payment.

Price risk

The Company is exposed to equity securities price risk because of investments classified on the statement of financial position as financial assets at fair value through other comprehensive income. The Company limits the financial assets at fair value through other comprehensive income in order to manage the price risk arising from investments in equity securities.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The risk of funding current and future debt requirements is managed by having an adequate number of quality loan providers constantly available. The Company management keeps cash, credit commitment and factoring capacity to maintain 21 days cash outflows to manage the liquidity risk. The Company maintains a credit commitment amounting to Euro 100 million and factoring agreement amounting to Euro 120 million in case a requirement for use arises.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Interest rate risk

Management uses short-term interest bearing financial assets to manage the maturities of interest bearing assets and liabilities. The Company makes limited use of interest rate swaps, to hedge its floating rate borrowings, if needed.

Funding risk

The ability to fund the existing and prospective debt requirements is managed as necessary by obtaining adequate committed funding lines from high quality lenders.

Foreign exchange risk

The Company is exposed to foreign exchange risk through the impact of rate changes on the translation of foreign currency assets and liabilities into TRY. This risk is monitored by key management personnel through Early Determination of Risk and Management Committee and regular Board of Director’s meetings.

Excess cash is invested mainly in hard currency to balance the net foreign currency assets and liabilities and in order to minimize the statement of financial position foreign exchange exposure. In addition to this, distribution of the amount of the export orientated production and sales in the related months can increase the foreign assets (Note 27).

Capital risk management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the “net financial debt to earnings before interest tax and depreciation”. This ratio is calculated as net financial debt divided by EBITDA (earnings before interest tax and depreciation) of last four quarters. Net financial debt is calculated as total short and long term borrowings minus cash and cash equivalents. Company management, this ratio is expected not to exceed 3.5.

	31 March 2019	31 December 2018
Net financial debt	3,235,760	3,090,045
EBITDA (Rolling)	2,993,862	2,854,076
Net financial debt / EBITDA (Rolling)	1.08	1.08

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Fair value of financial instruments

The Company measures derivatives and financial assets whose fair value changes reflected into other comprehensive income at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial assets

Foreign currency balances are translated into TL at the exchange rates prevailing at the balance sheet date. These balances are estimated to be close to the book value. Certain financial assets, including cash and cash equivalents, are carried at cost and are considered to approximate their respective carrying values due to their short-term nature. The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

Financial liabilities

Bank borrowings are recorded over their fair value of which the transaction costs are discounted. In the following periods, they are evaluated and recognized with their discounted costs by using the effective rate of interest method. The fair values of other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Cash flow hedge accounting

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Company.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as “hedging reserves”. Where the forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the income statement in the period in which the hedged firm commitment or forecasted transaction affects the income statement. If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Company has entered into swap transactions in order to manage its interest rate risk. Swap transactions are initially recognized at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. The fair value of interest swap contracts is determined by using valuation methods based on observable data in the market.

Derivative financial instruments are initially recognized at the transaction cost reflecting the fair value at the date of the contract is entered into and are subsequently measured at fair value. Derivative financial instruments are recognized as assets if the fair value is positive and as liabilities when the fair value is negative. The fair value differences of the Company are reflected in derivative financial instruments and consist of forward foreign currency purchase and sale contracts. Fair value is determined using valuation methods based on observable market data.

Investments accounted for by the equity method

Under the equity method, the investment in an associate or joint venture is initially recognized at cost. The carrying amount is increased or decreased to recognise the investor’s share of profit or loss of the investee after the date of the acquisition. The investor’s share of profit or loss of the investee is recognised in the investor’s profit or loss. Distributions (dividends etc.) received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount are necessary for the change in the investor’s proportionate interest in the investee arising from changes in the investee’s other comprehensive income. Such adjustments include revaluation of property, plant and equipment or foreign currency translation differences. The investor’s proportionate interest in the investee arising from changes are accounted in the investee’s other comprehensive income.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Borrowings and borrowing costs

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings (Note 6). With respect to assets which take long time to get ready for use and sale, borrowing costs related to production or construction are integrated to the cost of the asset. The borrowing costs include other costs incurred due to borrowing and interest.

Provision for employee benefits

a) **Defined benefit plan**

Provision for employee benefits represent the present value of the estimated total reserve of the future probable obligation of the Company arising from the retirement of the employees or reasons except for resignation and behaviours stated in labour law, calculated in accordance with the Turkish Labour Law (Note 15). According to the amendments on TAS 19 “Employee Benefits”, the actuarial (gain)/loss of employee benefits are recognized under other comprehensive income.

b) **Defined contribution plan**

The Company is obliged to pay social insurance contributions to the Social Security Institution. No other obligation exists as long as the Company pays these premiums. These premiums are reflected to the personnel expenses when they are accrued (Note 15).

c) **Other employee benefits**

“Long - term provisions for employee benefits” are composed of the unused vacation days accrued in the period incurred and if the impact is material, it is also discounted.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the provision amount decreases, in the case of an event occurring after the provision is accounted for, the related amount is classified as other income in the current period.

Provisions for sales premium

Provision for dealer stock sales premium expenses is accounted based on the last approved sales premium programme (Note 13).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Warranty provisions

Warranty expenses are recognized on an accrual basis for amounts estimated based on prior periods’ realization. The Company has reclassified warranty reserves to be expected to be realized in one year as current provision (Note 13).

Research and development expenses

Research expenditure is recognized as an expense as incurred. Costs, except for listed below are classified as development expenditures and recognized as expense as incurred:

- If the cost related to the products can be defined and only if the cost can be measured reliably,
- If the technological feasibility can be measured,
- If the good will be sold or will be used within the Company,
- If there’s a potential market or can be proved that it is used within the Company,
- If necessary technological, financial and other resources can be provided to complete the project.

Development costs previously recognized as expense are not recognized as an asset in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis over the project lifetime. Impairment test for the assets is performed annually within the recognition period of the development expenditures in progress (Note 11).

Leasing - the Company as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leasing - the Company as the lessor

Operational leasing

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Related parties

Parties are considered related to the company (reporting entity) if;

- (a) A person or close member of that person’s family is related to a reporting entity:

If that person,

- (i) has control or joint control over the reporting entity,
- (ii) has significant influence over the reporting entity; or,
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- (b) An entity is related to a reporting entity if any of the following condition applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The Company defines its key management personnel as board of directors’ members, general managers, assistant general managers and directors reporting directly to the general manager (Note 26).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Earnings per share

Earnings per share disclosed in the statement of profit or loss are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related year concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and the revaluation surplus. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year (Note 25).

Reporting of cash flows

In the statement of cash flows, cash flows during the period are classified under operating, investing or financing activities.

The cash flows raised from operating activities indicate cash flows due to the Company's operations.

The cash flows due to investing activities indicate the Company cash flows that are used for and obtained from investments (investments in property, plant and equipment and financial investments).

The cash flows due to financing activities indicate the cash obtained from financial arrangements and used in their repayment. Cash and cash equivalents include cash and bank deposits and the investments that are readily convertible into cash and highly liquid assets with less than three months to maturity (Note 4).

Contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are not included in the financial statements and treated as contingent assets or liabilities (Note 13).

Subsequent events

Subsequent events and announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the statement of financial position date and the date when the statement of financial position is authorized for issue. In the case that events requiring an adjustment to the financial statements occur subsequent to the statement of financial position date, the Company makes the necessary corrections on the financial statements (Note 33).

Offsetting

Financial assets and liabilities are offset when there is a legal basis, intention to disclose net amount of related assets and liabilities or obtaining an asset that follows the settlement its liability.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Government grants and incentives

Government grants and incentives are recognized at fair value when there is assurance that these grants and incentives will be received and the Company has met all conditions required. Government grants and incentives regarding the capitalized projects, costs are recognized by netting from costs of property, plant and equipment and intangible assets. Incentives which are not subject to assets are shown as other income in the income statement.

2.4 Accounting policies, changes in accounting estimates and errors

Material changes in accounting policies and estimates or material errors are corrected retrospectively; by restating the prior period financial statements. The effect of changes in accounting estimates affecting the current period is recognized in the current period; the effect of changes in accounting estimates affecting current and future periods is recognized in the current period and prospectively.

The Company applied first time application requirements of TFRS 16 “Leases” out of the new standards, amendments and interpretations effective from 1 January 2019 in line with the requirement of transition of the related standards.

The effects of this standard-related accounting policy change and the first-time implementation of the relevant standards are as follows:

TFRS 16 “Leases” Standard

At inception of a contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company shall assess whether, throughout the period of use, the customer has both of the following:

- The contract includes an identified asset (identification of an asset in a clear or implicitly specified form in the contract),
- A capacity portion of an asset is an identified asset if it is physically distinct and represents substantially all of the capacity of the asset (the asset is not an identified asset if the vendor has a fundamental right to substitute the asset for the duration of its use and obtain an economic benefit from it)
- The Company has the right to obtain almost all of the economic benefits that will be derived from the use of the identified asset,

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(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Accounting policies, changes in accounting estimates and errors (Continued)

- The right to direct the use of the identified asset. The Company has the right to direct the use of an identified asset throughout the period of use only if either:
 - a) The Company has the right to direct how and for what purpose the asset is used throughout the period of use
 - b) the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - i) the Company has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or
 - ii) the Company designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use

The Company recognizes right of use asset and lease liability at the start date of lease after evaluation of aforementioned criterias.

Right of use asset

At the commencement date, the Company shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- a) the amount of the initial measurement of the lease liability,
- b) any lease payments made at or before the commencement date, less any lease incentives received;
- c) any initial direct costs incurred by the Company
- d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

To apply a cost model, the Company shall measure the right-of-use asset at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any remeasurement of the lease liability

The Company shall apply the depreciation requirements in TAS 16 Property, Plant and Equipment in depreciating the right-of-use asset.

The Company shall apply TAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Accounting policies, changes in accounting estimates and errors (Continued)

Lease Liability

At the commencement date, the Company shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee’s incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) fixed payments, less any lease incentives receivable;
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- c) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company shall measure the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability;
- b) reducing the carrying amount to reflect the lease payments made; and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Extension and early termination options

The lease liability is determined by considering the extension and early termination options in the contracts. Most of the extension and early termination options included in the contracts are composed of the options that are jointly applicable by the Company and the lessor. The Company determines the lease term by the extension of the lease, if such extension and early termination options are at the Company's discretion and the use of the options is reasonably certain. If there is a significant change in the circumstances, the evaluation is reviewed by the Company.

Variable lease payments

Lease payments arising from some of the Company's lease agreements consist of variable rent payments. These variable lease payments, which are not included in TFRS 16, are recorded as rent expense in the related period in the income statement.

Practical expedient

Contracts for short-term lease agreements with a rental period of less than 12 months and information technology equipment leases (mainly printers, laptops, mobile telephones, etc.), which are determined as low value by the Company, have been evaluated under the exception of the TFRS 16 Leases Standard and these payments are recognized as an expense in the period in which they are incurred.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Accounting policies, changes in accounting estimates and errors (Continued)

Transition to TFRS 16 “Leases”

The Company applied TFRS 16, “Leases”, which superseded TAS 17, “Leases”, and accounted in the consolidated financial statements by using “cumulative effect method” on the transition date of 1 January 2019. In accordance with the simplified transition method defined in standard, no restatement has been required in the comparative information of the financial statement and has no impact on retained earnings.

On first time adoption of TFRS 16 “Leases”, the Company recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of TAS 17 “Leases” before 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of the transition date. The right to use assets are accounted for at an amount equal to the lease obligations (adjusted for the amount of prepaid or accrued lease payments) within the scope of simplified transition application in the related standard.

The reconciliation of the operating lease agreements followed under TAS 17 prior to the first application date and the lease liabilities recognized under TFRS 16 in the financial statements as of 1 January 2019 is as follows

	1 January 2019
Operating lease commitments disclosed in accordance with TAS 17	139,106
- Short term leases (-)	-
- Low value leases (-)	-
- Contracts reassessed as service agreements (-)	-
- Adjustments as a result of extension and termination options	-
Lease liability recognised under TFRS 16 (not discounted)	139,106
Lease liability recognised under TFRS 16 (discounted)	111,103
- Short term lease liability	33,370
- Long term lease liability	77,733

The weighted average Company’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.6% for Euro and 28% for TL.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Accounting policies, changes in accounting estimates and errors (Continued)

The details of the right-of-use assets recognised by each asset type in financial statements as of 31 March 2019 and 1 January 2019 are as follows:

	31 March 2019	1 January 2019
Building	46,335	50,003
Machinery and equipment	59,033	63,310
Vehicles	20,899	23,715
Total right-of-use assets	126,267	137,028

The practical expedients applied in transition

Within the scope of the transition, the following practices defined in TFRS 16 are adopted within the scope of the Company policies.

- a) The leases which have a lease term of 12 months or less are exempted. Although the rental period is 1 year or less; The Company has an option to extend the lease and is reasonably certain that it will use the extension right option (for example, if there is a significant amount of private cost investment related to the asset subject to the leasing and that the investment has been amortized for more than 1 year). the agreement is included in the scope of TFRS 16.
- b) Low value leases mainly printer, laptop, mobile phone, etc. information technology equipment) are excluded.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Significant accounting estimates and decisions

The preparation of financial statements require management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

- (a) In calculation of the employee benefit provision actuarial assumptions relating to turnover ratio, discount rate and salary increase are used. The details regarding the calculation are disclosed in provision for employee benefits (Note 15).
- (b) In determination of the impairment of trade receivables, the factors such as debtor credibility, historical payment performance and debt restructuring is considered (Note 7).
- (c) Discounted inventory price list is used to calculate inventory impairment. Where the sales price cannot be predicted, technical personnel’s opinion and inventory waiting time is considered. If expected net realizable value is less than cost, the Company should allocate provisions for inventory impairment (Note 9).
- (d) In determination of the legal case provisions, the possibilities of losing the case and the liabilities that will arise if the case is lost is evaluated by the Company’s Legal Counsellor and by the Management team taking into account expert opinions. The management determines the amount of the provisions based on the best forecasts.
- (e) In calculation of the warranty provision, the Company considers the historical warranty expenses incurred addition to planned technical and financial improvements to estimate the possible warranty expense per vehicle. Provision calculations are realistically performed and based on vehicle quantity, warranty period and historical claims (Note 13).
- (f) Deferred tax assets are recognized when the occurrence of taxable profit is probable in the forthcoming years. Deferred tax asset is calculated over any temporary differences in cases when the occurrence of taxable profit is probable, taken into consideration of tax advantages obtained within the context of investment incentive certificates. Deferred tax asset is recorded as of 31 March 2019 and 31 December 2018 since presumptions that the Company will have taxable profit in the forthcoming periods are found to be sufficient (Note 24).
- (g) The Company recognizes depreciation and amortization for its property, plant and equipment and intangibles by taking into account their useful lives that are stated in Note 2 (Notes 10 and 11).
- (h) Development costs related to continuing projects are capitalized and the Company management perform impairment test regarding those capitalized costs annually. As of 31 March 2019 and 31 December 2018, there is no impairment determined related to development costs in progress (Note 11).

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3. SEGMENT REPORTING

The Company, which is incorporated and domiciled in Turkey, has primary operation of manufacturing, assembling, importing and selling motor vehicles and spare parts. The Company's operating segments, nature and economic characteristics of products, nature of production processes, classification of customers in terms of risk for their products and services and methods used to distribute their products are similar. Furthermore, the Company structure has been organized to operate in one segment rather than separate business segments. Consequently, the business activities of the Company are considered to be in one operating segment and the operating results, resources to be allocated to the segment and assessment of performance are managed in this respect.

4. CASH AND CASH EQUIVALENTS

The maturity period of time deposits is up to three months and there is no blockage/restriction on cash and cash equivalents. The weighted average interest rate for foreign currency denominated time deposits is 1.31% (31 December 2018: 1.85%) and the weighted average interest rate for the TRY time deposits is 20.51% (31 December 2018: 23.48%).

	31 March 2019	31 December 2018
Banks - TRY time deposits	1,058,041	875,225
Banks - foreign currency time deposits	1,000,234	486,369
Banks - TRY demand deposits	40,737	27,296
Banks - foreign currency demand deposits	1,893	2,131
Cash and cash equivalents in the cash flow statement	2,100,905	1,391,021
Interest income accrual	4,250	1,751
	2,105,155	1,392,772

5. FINANCIAL ASSETS

	31 March 2019		31 December 2018	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Financial assets at fair value through other comprehensive income				
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0.59	14,749	0.59	12,408
		14,749		12,408

(*) The Company's shareholding in Otokar was stated at market value at 31 March 2019 and 31 December 2018 which is assumed to approximate its fair value.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2019

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6. FINANCIAL LIABILITIES

Short-term financial liabilities

Bank borrowings

	31 March 2019		31 December 2018	
	Effective interest rate (%)	TRY Amount	Effective interest rate (%)	TRY Amount
- Euro	0.88	2,686,940	0.74	2,020,474
- TRY	-	2,789	-	10,332
		2,689,729		2,030,806

Short-term portion of long-term financial liabilities

Bank borrowings

- Euro	1.66	825,817	1.61	773,457
		825,817		773,457

Lease liabilities

- Euro	4.60	25,913	-	-
- TRY	28	9,187	-	-
		35,100		-

		860,917		773,457
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Total short-term financial liabilities		3,550,646		2,804,263
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Long-term financial liabilities

Bank borrowings

	31 March 2019		31 December 2018	
	Effective interest rate (%)	TRY Amount	Effective interest rate (%)	TRY Amount
- Euro	1.67	1,718,911	1.61	1,678,554
		1,718,911		1,678,554

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6. FINANCIAL LIABILITIES (Continued)

Lease liabilities

	31 March 2019		31 December 2018	
	Effective interest rate (%)	TRY Amount	Effective interest rate (%)	TRY Amount
- Euro	4.60	47,886	-	-
- TRY	28	23,472	-	-
		71,358		-
Total long-term financial liabilities		1,790,269		1,678,554

The payment schedules of long-term bank borrowings as of 31 March 2019 and 31 December 2018 are as follows:

Payment period	31 March 2019	31 December 2018
2020	592,484	670,934
2021	538,760	486,232
2022	282,515	243,671
2023	209,569	186,997
2024	95,583	90,720
	1,718,911	1,678,554

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TRY2,819,923 (31 December 2018: TRY2,201,762) (Note 13).

The movement of financial liabilities as of 31 March 2019 and 2018 is as follows:

	2019	2018
1 January	4,482,817	3,604,047
Effect of cash flows	522,365	189,591
Unrealised foreign exchange differences	221,726	267,788
Change in accrual of interest	7,549	6,202
31 March	5,234,457	4,067,628

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7. TRADE RECEIVABLES AND PAYABLES

	31 March 2019	31 December 2018
Short - term trade receivables		
Trade receivables	1,101,473	1,086,298
Doubtful receivables	4,533	4,533
Less: Unearned credit finance income	(27,910)	(27,372)
	1,078,096	1,063,459
Less: Provision for doubtful receivables	(4,533)	(4,533)
	1,073,563	1,058,926

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2018: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2018: 70 days) and discounted by 2.18% monthly effective interest rate (31 December 2018: 2.23%).

The collection of receivables from export sales other than Ford Motor Company is kept under guarantee with letter of credit, letter of guarantee, export credit insurance, Ford credit limit or upfront cash collection.

	31 March 2019	31 December 2018
Long - term trade receivables		
Deposits and guarantees given	2,984	2,954
	2,984	2,954

	31 March 2019	31 December 2018
Trade payables		
Trade payables	3,548,608	3,364,101
Less: Unearned credit finance expense	(47,293)	(44,981)
	3,501,315	3,319,120

The average turnover of trade payables is 60 days (31 December 2018: 60 days) and discounted by 2.18% monthly effective interest rate (31 December 2018: 2.23%).

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

The maximum exposure of the Company to credit risk as of 31 March 2019 and 31 December 2018 is as follows:

31 March 2019	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Note 26, 7, 8, 4)	2,519,694	1,073,563	-	5,831	2,100,905
- The maximum of credit risk covered by guarantees	225,000	1,071,801	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	2,400,956	1,071,373	-	5,831	2,100,905
Net book value of financial assets that are overdue but not impaired	118,738	2,190	-	-	-
- Amount of risk covered by guarantees	-	428	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533	-	-	-
- Provision for impairment (-)	-	(4,533)	-	-	-
- Teminat ile güvence altına alınmış kısmı	-	-	-	-	-

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2018	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Note 26, 7, 8, 4)	2,082,263	1,058,926	-	2,788	1,391,021
- The maximum of credit risk covered by guarantees	225,000	1,057,997	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	2,020,642	1,050,204	-	2,788	1,391,021
Net book value of financial assets that are overdue but not impaired	61,621	8,722	-	-	-
- Amount of risk covered by guarantees	-	7,793	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533	-	-	-
- Provision for impairment (-)	-	(4,533)	-	-	-
- Provision for impairment (-)	-	-	-	-	-

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

The aging schedule of receivables that are overdue but not impaired is as follows:

31 March 2019	Trade receivables	
	Related party	Other
1-30 days overdue	75,070	797
1-3 months overdue	6,826	730
3-12 months overdue	30,086	585
1-5 years overdue	6,756	78
	118,738	2,190
Risk covered by guarantees	-	428

The Company's overdue related party receivables are related to the long-term engineering service charges and spare parts exports to Ford Motor Company.

31 December 2018	Trade receivables	
	Related party	Other
1-30 days overdue	18,203	4,204
1-3 months overdue	4,812	2,360
3-12 months overdue	31,540	2,121
1-5 years overdue	7,066	37
	61,621	8,722
Risk covered by guarantees	-	7,793

8. OTHER RECEIVABLES AND PAYABLES

	31 March 2019	31 December 2018
Other receivables		
Other miscellaneous receivables	5,831	2,788
	5,831	2,788

	31 March 2019	31 December 2018
Other payables		
Taxes and funds payable	22,591	19,624
Marketing expense and other expense accruals	13,760	-
Sales premium accruals	11,092	8,033
Provisions for donations	8,564	-
Other	7,690	7,004
	63,697	34,661

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9. INVENTORIES

	31 March 2019	31 December 2018
Raw materials	678,314	638,408
Finished goods	502,375	412,139
Goods in transit	391,261	328,890
Import vehicles	91,796	90,427
Vehicle spare parts	277,251	277,117
Spare parts	46,541	40,682
Other	82,124	99,829
	2,069,662	1,887,492
Less: Provision for impairment of finished goods and vehicle spare parts	(22,098)	(22,847)
	2,047,564	1,864,645

The allocation of fixed production overheads to finished goods costs of conversion is based on the normal capacity of the production facilities.

The Company has accounted the expenses due to the impairment of inventories as part of cost of sales and the movement in the balance within the year is as follows:

	2019	2018
1 January	22,847	3,906
Change within the period	(749)	463
31 March	22,098	4,369

The Company has provided a provision for impairment on the inventories when their net realizable values are lower than their costs or when they are classified as slow moving inventories. The reversal of provisions has been accounted under cost of sales (Note 18).

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10. PROPERTY, PLANT AND EQUIPMENT

1 January 2019	Land	Land improvements	Buildings	Machine & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Constructions in progress	Total
Cost	12,269	188,904	1,000,623	2,863,335	2,890,202	449,351	68,226	132,050	7,604,960
Accumulated depreciation	-	(83,462)	(432,266)	(1,411,727)	(1,459,374)	(283,565)	(11,819)	-	(3,682,213)
Net book value	12,269	105,442	568,357	1,451,608	1,430,828	165,786	56,407	132,050	3,922,747
For the period ended 31 March 2019									
Opening net book value	12,269	105,442	568,357	1,451,608	1,430,828	165,786	56,407	132,050	3,922,747
Additions	-	796	703	53,897	149,330	7,801	306	9,526	222,359
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	(3)	(1,145)	(3,904)	(783)	(1,023)	(776)	-	(7,634)
Depreciation charge	-	(1,591)	(7,647)	(40,555)	(74,398)	(8,033)	(569)	-	(132,793)
Disposals from accumulated depreciation	-	2	548	3,760	344	1,015	302	-	5,971
Closing net book value	12,269	104,646	560,816	1,464,806	1,505,321	165,546	55,670	141,576	4,010,650
31 March 2019									
Cost	12,269	189,697	1,000,181	2,913,328	3,038,749	456,129	67,756	141,576	7,819,685
Accumulated depreciation	-	(85,051)	(439,365)	(1,448,522)	(1,533,428)	(290,583)	(12,086)	-	(3,809,035)
Net book value	12,269	104,646	560,816	1,464,806	1,505,321	165,546	55,670	141,576	4,010,650

The Company compared the borrowing cost of investment loans in foreign currency to the market loan interest denominated in TRY and foreign exchange differences. No interest costs has been recognized under property, plant and equipment according to the cumulative approach within the context of TAS 23 as of 31 March 2019 (31 December 2018: 9,355 TL).

There is no collateral, pledge or mortgage on tangible assets as of 31 March 2019 and 2018.

(*) The Company makes a part of its truck sales with buyback commitment and trucks sold in this scope are monitored in “Vehicles” under Property, Plant and Equipment and their cost value amounts to TRY46,233 (31 December 2018: TRY46,359).

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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

1 January 2018	Land	Land improvements	Buildings	Machine & equipment	Models & moulds	Fixture & furniture	Vehicles	Constructions in progress	Total
Cost	12,269	163,711	977,033	2,600,505	2,386,432	407,829	123,031	114,972	6,785,782
Accumulated depreciation	-	(77,166)	(401,565)	(1,270,803)	(1,226,214)	(251,898)	(21,916)	-	(3,249,562)
Net book value	12,269	86,545	575,468	1,329,702	1,160,218	155,931	101,115	114,972	3,536,220
For the period ended 31 March 2018									
Opening net book value	12,269	86,545	575,468	1,329,702	1,160,218	155,931	101,115	114,972	3,536,220
Additions	-	507	1,361	15,163	60,058	9,540	36	19,110	105,775
Transfers	-	12,801	1,660	9,361	6,199	1,738	-	(31,759)	-
Disposals	-	-	(767)	(4,271)	(3,098)	(343)	(1,529)	-	(10,008)
Depreciation charge	-	(1,535)	(7,972)	(38,851)	(51,389)	(8,054)	(498)	-	(108,299)
Disposals from accumulated depreciation	-	-	767	4,044	1,385	310	443	-	6,949
Closing net book value	12,269	98,318	570,517	1,315,148	1,173,373	159,122	99,567	102,323	3,530,637
31 March 2018									
Cost	12,269	177,019	979,287	2,620,758	2,449,591	418,764	121,538	102,323	6,881,549
Accumulated depreciation	-	(78,701)	(408,770)	(1,305,610)	(1,276,218)	(259,642)	(21,971)	-	(3,350,912)
Net book value	12,269	98,318	570,517	1,315,148	1,173,373	159,122	99,567	102,323	3,530,637

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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The allocation of depreciation expense as of 31 March 2019 and 2018 is as follows:

	31 March 2019	31 March 2018
Cost of production (Note 18)	122,913	100,303
Research and development expenses (Note 19)	4,678	4,390
General administrative expenses (Note 19)	2,703	2,159
Marketing expenses (Note 19)	751	777
Associated with construction in progress	1,748	670
	132,793	108,299

11. INTANGIBLE ASSETS

1 January 2019	Rights	Development cost	Development cost in progress	Other	Total
Cost	72,230	1,037,848	162,777	7,822	1,280,677
Accumulated amortisation	(57,253)	(393,622)	-	(6,460)	(457,335)
Net book value	14,977	644,226	162,777	1,362	823,342
For the period ended 31 March 2019					
Opening net book value	14,977	644,226	162,777	1,362	823,342
Additions	802	35,868	-	-	36,670
Transfers	-	-	-	-	-
Amortisation charge	(3,486)	(30,945)	-	(68)	(34,499)
Closing net book value	12,293	649,149	162,777	1,294	825,513
31 March 2019					
Cost	73,032	1,073,716	162,777	7,822	1,317,347
Accumulated amortisation	(60,739)	(424,567)	-	(6,528)	(491,834)
Net book value	12,293	649,149	162,777	1,294	825,513

There is no fully depreciated intangible assets as of 31 March 2019. As of 31 March 2019, there is no capitalized interest costs and foreign exchange differences in accordance with TAS 23 (31 December 2018: None).

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11. INTANGIBLE ASSETS (Continued)

1 January 2018	Rights	Development cost	Development cost in progress	Other	Total
Cost	55,093	652,389	330,166	7,556	1,045,204
Accumulated amortisation	(45,405)	(303,302)	-	(6,160)	(354,867)
Net book value	9,688	349,087	330,166	1,396	690,337
For the period ended 31 March 2018					
Opening net book value	9,688	349,087	330,166	1,396	690,337
Additions	2,804	45,172	-	30	48,006
Transfers	-	264,136	(264,136)	-	-
Amortisation charge	(2,845)	(16,944)	-	(74)	(19,863)
Closing net book value	9,647	641,451	66,030	1,352	718,480
31 March 2018					
Cost	57,897	961,697	66,030	7,586	1,093,210
Accumulated amortisation	(48,250)	(320,246)	-	(6,234)	(374,730)
Net book value	9,647	641,451	66,030	1,352	718,480

The allocation of amortisation charges of intangible assets relating to 31 March 2019 and 2018 is as follows:

	31 March 2019	31 March 2018
Cost of production (Note 18)	31,550	17,536
General administrative expenses (Note 19)	2,102	1,444
Research and development expenses (Note 19)	648	712
Marketing expenses (Note 19)	194	165
Associated with construction in progress	5	6
	34,499	19,863

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12. PREPAID EXPENSES

Short - term prepaid expenses	31 March 2019	31 December 2018
Advances given for inventories	36,598	52,664
Other prepaid expenses (*)	15,764	21,711
	52,362	74,375
Long - term prepaid expenses	31 March 2019	31 December 2018
Advances given for investments (**)	367,145	365,428
Other prepaid expenses (*)	-	16,992
	367,145	382,420

(*) The prepaid expenses related to operating leases are classified under right of use assets as of 1 January 2019 under TFRS 16.

(**) Advances given for investments are related to the Company's new vehicle investments. TRY224,563 (31 December 2018: TRY250,412) is given to domestic vendors as mould advances and TRY142,582 (31 December 2018: TRY115,016) is given for the new project investments.

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES

The Company recognizes 2, 3 and 4 years of warranty provision for the vehicles sold by dealers for malfunctions described in the sales agreements. Warranty expense provision is estimated by considering vehicles under warranty as of the balance sheet date and warranty claims of vehicles sold in previous years on a model basis.

Short-term provisions

	31 March 2019	31 December 2018
Warranty expense provision	125,677	107,972
Provisions for sales premium (*)	52,332	47,255
	178,009	155,227

(*) Provisions for sales premium is composed of expense accruals related with dealer vehicle stock at the reporting date (Note 2).

Long-term provisions

	31 March 2019	31 December 2018
Warranty expense provision	81,362	86,354
Provisions for lawsuits	51,716	50,326
	133,078	136,680

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13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

The movement of provisions for lawsuits during the period is as follows:

	2019	2018
1 January	50,326	46,660
Paid during the period	(1,914)	(1,399)
Additions during the period	3,304	3,687
31 March	51,716	48,948

Movements in the warranty expense provision during the period is as follows:

	2019	2018
1 January	194,326	231,525
Paid during the period	(37,908)	(25,467)
Additions during the period (Note 19)	50,621	25,042
31 March	207,039	231,100

Letters of guarantee and letters of credit	31 March 2019	31 December 2018
Letters of guarantee given to financial institutions due to bank loans	2,819,923	2,201,762
Letters of guarantee given to customs	67,779	64,871
Letters of guarantees given to other parties	13,001	15,110
	2,900,703	2,281,743

Letters of guarantee given	31 March 2019		31 December 2018	
	Original currency	TRY amount	Original currency	TRY amount
Euro	456,516	2,884,635	375,527	2,263,678
USD	13	73	13	68
TRY	15,995	15,995	17,997	17,997
		2,900,703		2,281,743

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13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

The allocation of collaterals, pledges and mortgages as of 31 March 2019 and 31 December 2018 as follows:

Collaterals, pledges and mortgages given by the Company	31 March 2019	31 December 2018
A. Total amount of collaterals/pledges/mortgages given for its own legal entity	2,900,703	2,281,743
B. Total amount of collaterals/pledges/mortgages given for participations included in entire consolidation	-	-
C. Total amount of collaterals/pledges/mortgages given to assure debts of third parties, for the purpose of conducting the business activities	-	-
D. Total amount of other collaterals/pledges/mortgages given		
i. Total amount of collaterals/pledges/mortgages given for the parent company	-	-
ii. Total amount of collaterals/pledges/mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals/pledges/mortgages given for third parties that do not fall into C section	-	-
	2,900,703	2,281,743

As of 31 March 2019 and 31 December 2018, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

Letters of guarantee received

	31 March 2019		31 December 2018	
	Original currency	TRY amount	Original currency	TRY amount
TRY	86,548	86,548	99,778	99,778
Euro	4,395	27,772	12,955	78,093
USD	372	2,094	251	1,320
		116,414		179,191

Other

The long-term bank borrowing agreements related to the investments require the Company to comply with certain financial ratios. Such financial ratios are met by the Company as of 31 March 2019 and 31 December 2018.

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14. COMMITMENTS

Commitments related with bank loans used by the Company are as follows:

- a) In 2019, the Company pledged to spend EUR 200,000,000 on its İş Bank accounts in 2019 in accordance with its one year maturity loan agreements signed with İşbank in 2019.
- b) The Company, also committed to Türkiye İhracat Kredi Bankası A.Ş. (Eximbank);
 - With 8 months term credit amounting to Euro 70,000,000 used in August 2018 an export amount of Euro 70,000,000,
 - With 8 months term credit amounting to Euro 35,000,000 used in September 2018 an export amount of Euro 35,000,000,
 - With 8 months term credit amounting to Euro 50,000,000 used in October 2018 an export amount of Euro 50,000,000,
 - With 8 months term credit amounting to Euro 40,000,000 used in November 2018 an export amount of Euro 40,000,000,
 - With 8 months term credit amounting to Euro 70,000,000 used in January 2019 an export amount of Euro 70,000,000,
 - With 8 months term credit amounting to Euro 50,000,000 used in February 2019 an export amount of Euro 50,000,000,
 - With 8 months term credit amounting to Euro 30,000,000 used in March 2019 an export amount of Euro 30,000,000,

15. EMPLOYEE BENEFITS

Liabilities for employee benefit obligations

	31 March 2019	31 December 2018
Salaries and social charges payable	82,812	72,350
Social security premiums payable	27,263	34,523
Withholding income tax payable	11,277	38,877
Other	3,620	3,861
	124,972	149,611

Provision for employee benefits

	31 March 2019	31 December 2018
Provision for employment termination benefits	175,793	170,925
Provision for unused vacation pay liability	35,378	25,443
	211,171	196,368

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15. EMPLOYEE BENEFITS (Continued)

Provision for employment termination benefits

There are no agreements for pension commitments other than the legal requirement as explained below:

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of full TRY6,017.60 for each year of service as of 1 January 2019 (31 December 2018: Full TRY6,017.60).

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

TFRS requires actuarial valuation methods to be developed to estimate the Company's obligation under defined benefit plans, accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 March 2019	31 December 2018
Net discount rate	5.65	5.65
Turnover rate to estimate the probability of retirement (%)	96.05	96.05

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Since the Company calculates the reserve for employee benefits once a year, the maximum amount of full TRY6,017.60 which was effective as of 1 January 2019 (31 December 2018: Full TRY6,017.60) has been used in the calculations.

Movements in the provision for employee benefits during the year are as follows:

	2019	2018
1 January	170,925	131,726
Interest cost	7,153	3,876
Current year service cost	17,800	14,027
Paid during the period	(4,988)	(4,711)
Actuarial gains	(15,097)	1,753
31 March	175,793	146,671

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15. EMPLOYEE BENEFITS (Continued)

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of 31 March 2019 is below:

Sensitivity level	Net discount rate		Turnover rate related to the probability of retirement	
	%0.5 baz decrease	%0.5 baz increase	%0.5 baz decrease	%0.5 baz increase
Rate (%)	(5,1)	(6,1)	95,5	96,5
Change in provision for employee benefits	8,471	(7,830)	(6,509)	7,113

16. OTHER CURRENT ASSETS

	31 March 2019	31 December 2018
VAT to be deducted (*)	1,114,493	890,731
Prepaid taxes and withholding	20,069	15,643
Other	5,662	13,318
	1,140,224	919,692

(*) VAT to be deducted includes export VAT receivables related to January, February and March 2019. VAT return for January amounting to TRY246,250 and February amounting to TRY242,433 has been collected in April 2019.

17. EQUITY

The composition of the Company's paid-in capital as of 31 March 2019 and 31 December 2018 is as follows:

Shareholders	Share group	Shareholders		Shareholders	
		31 March 2019	percentage (%)	31 December 2018	percentage (%)
Koç Holding A.Ş.	B	134,953	38.46	134,953	38.46
Temel Ticaret ve Yatırım A.Ş.	B	2,356	0.67	2,356	0.67
Ford Motor Company	C	143,997	41.04	143,997	41.04
Vehbi Koç Vakfı	A	3,559	1.01	3,559	1.01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3,259	0.93	3,259	0.93
Other (Publicly traded)	A	62,786	17.89	62,786	17.89
		350,910	100	350,910	100
Inflation adjustment to share capital		27,920		27,920	
Inflation adjusted paid in capital		378,830		378,830	

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17. EQUITY (Continued)

Adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share.

There are 35,091,000,000 unit of shares (31 December 2018: 35,091,000,000 unit) with a nominal value of Kr 1 each.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital. Under the TCC; the legal reserves can be used only to offset losses, unless legal reserve does not exceed at the rate of 50% of the paid-in capital.

In accordance with CMB Financial Reporting Standards, the Company classified the above mentioned reserves under "Restricted reserves", the amount of restricted reserves is TRY454,116 as of 31 March 2019 (31 December 2018: TRY370,599).

In accordance with Communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board of Turkey ("CMB") on June 13, 2013 which is published on Official Gazette numbered 28676, "Share Capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amount. The valuation differences shall be classified as follows:

- "the difference arising from the "Paid-in Capital" and not been transferred to capital yet, shall be classified under the "Inflation Adjustment to Share Capital";
- the difference due to the inflation adjustment of "Restricted reserves" and "Share premium" and the amount has not been utilized in dividend distribution or capital increase yet, shall be classified under "Retained earnings";

Other equity items shall be carried at the amounts calculated based on TAS. Adjustment to share capital has no use other than being transferred to paid-in share capital.

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014. Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable instalments and advance dividend can be paid in accordance with profit on year-end financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

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17. EQUITY (Continued)

In accordance with the Ordinary General Assembly Meeting dated as of March 15, 2019, the Company has decided to distribute dividends at the rate of 243% gross (net %206.55), with a total amount of TRY852,711 as full TRY2.43 gross (Kr 206.55 net) for each share with a value of full TRY1 and the Company made the dividend payment in April 2019. (In April 2018 full TRY 2.28 of the gross TRY1 share (net Kr 193.80) will be %228 rate TRY 800,075 and in November 2018, full TRY1.15 of the gross TRY1 share (net Kr 97.75) will be %115 rate TRY403,547; total of TRY1,203,622 cash dividend was distributed).

In accordance with Communiqué No: II-14,1, "Communiqué on the Principles of Financial Reporting In Capital Markets", equity schedule at 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019	31 December 2018
Issued capital	350,910	350,910
Inflation adjustments on capital	27,920	27,920
Share premium	8	8
Gains from financial assets measured at fair value through other comprehensive income	13,083	10,859
Losses on cash flow hedge	(835,843)	(794,287)
Losses on remeasurements of defined benefit plans	11,799	(279)
Restricted reserves	454,116	370,599
- Legal reserves	454,116	370,599
Retained earnings	2,991,281	2,244,313
- Inflation adjustment to equity	428,301	428,301
- Extraordinary reserves	2,562,980	1,816,012
Net income for the period	477,960	1,683,196
Total equity	3,491,234	3,893,239

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended 31 March 2019 and 31 December 2018 are as follows:

31 March 2019	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910	378,830	27,920
Legal reserves	454,116	512,869	58,753
Extraordinary reserves	2,562,980	2,932,125	369,145
Share premium	8	361	353
Other reserves	-	50	50
	3,368,014	3,824,235	456,221

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17. EQUITY (Continued)

31 December 2018	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910	378,830	27,920
Legal reserves	370,599	429,352	58,753
Extraordinary reserves	1,816,012	2,185,157	369,145
Share premium	8	361	353
Other reserves	-	50	50
	2,537,529	2,993,750	456,221

Inflation adjustment difference in equity can be utilized in issuing bonus shares and in offsetting accumulated losses; the carrying amount of extraordinary reserves can be utilized in issuing bonus shares, cash dividend distribution and offsetting accumulated losses.

Otokar shares which are publicly traded in BIST are valued at their closing price as of 31 March 2019 and 31 March 2018. As of 31 March 2019, fair value change (negative) amounting to TRY2,224 net of deferred tax, (31 March 2018: TRY1,283) is shown in statement of comprehensive income.

The net of tax effects of the changes in the statement of other comprehensive income and the effects of the changes in accumulated income and expense under equity are as follows:

	2019	2018
1 January	(783,707)	(501,513)
(Losses) from financial assets measured at fair value through other comprehensive income	2,224	(1,283)
Actuarial gains/(losses)	12,078	(1,402)
Losses on cash flow hedges	(41,556)	(97,980)
31 March	(810,961)	(602,178)

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18. REVENUE AND COST OF SALES

	31 March 2019	31 March 2018
Export sales	8,141,113	5,728,030
Domestic sales	1,312,516	1,700,954
Other sales	44,367	44,873
Less: Discounts	(213,944)	(191,847)
	9,284,052	7,282,010

Units of vehicle sales

	31 March 2019			31 March 2018		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	1,236	46,392	47,628	1,154	40,303	41,457
Transit	3,130	32,521	35,651	4,469	30,046	34,515
Transit Courier	3,266	9,715	12,981	6,541	12,290	18,831
Passenger vehicles	2,045	22	2,067	5,304	36	5,340
Ford Trucks (Trucks)	440	543	983	1,262	369	1,631
Ranger	236	-	236	199	24	223
New Transit Connect	88	-	88	233	-	233
	10,441	89,193	99,634	19,162	83,068	102,230

Summaries of cost of production as of 31 March 2019 and 2018 are as follows:

	31 March 2019	31 March 2018
Raw material cost	(7,231,120)	(5,652,009)
Production overhead costs	(423,543)	(360,428)
Amortization expenses (Note 10, 11 ve 33)	(161,685)	(117,839)
Changes in finished goods	90,984	326,709
Total production cost	(7,725,364)	(5,803,567)
Cost of trade goods sold	(614,916)	(721,122)
Total cost of sales	(8,340,280)	(6,524,689)

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**19. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES,
GENERAL ADMINISTRATIVE EXPENSES**

	31 March 2019	31 March 2018
Marketing expenses		
Warranty expenses (Note 13)	(50,621)	(25,042)
Personnel expenses	(33,151)	(25,372)
Advertising expenses	(19,029)	(24,881)
Vehicle transportation expenses	(7,203)	(10,382)
Export expenses	(6,354)	(4,336)
Spare parts transportation and packaging expenses	(5,889)	(5,943)
Depreciation and amortization expenses (Note 10, 11 ve 33)	(3,491)	(942)
Dealer and service development expenses	(1,197)	(2,639)
Other	(24,079)	(18,576)
	(151,014)	(118,113)
General administrative expenses		
Personnel expenses	(38,486)	(31,993)
Legal, consulting and auditing expenses	(9,923)	(8,720)
Grants and donations	(8,614)	(8,873)
Depreciation and amortization expenses (Note 10, 11 ve 33)	(5,330)	(3,603)
Organization expenses	(3,664)	(3,205)
Transportation and travel expenses	(2,328)	(1,547)
New project administrative expenses	(1,770)	(3,624)
Repair, maintenance and energy expenses	(1,699)	(746)
Duties, taxes and levies expenses	(1,460)	(839)
Other	(12,914)	(11,803)
	(86,188)	(74,953)
Research and development expenses		
Personnel expenses	(60,837)	(45,945)
Mechanization expenses	(17,858)	(12,825)
Project costs	(14,239)	(29,809)
Depreciation and amortization expenses (Note 10, 11 ve 33)	(5,794)	(5,102)
Other	(5,215)	(4,899)
	(103,943)	(98,580)

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20. EXPENSES BY NATURE

The classification of expenses by nature for the periods ended at 31 March 2019 and 2018 is as follows:

	31 March 2019	31 March 2018
Raw material cost	(7,231,120)	(5,652,009)
Cost of trade goods sold	(614,916)	(721,122)
Personnel expenses	(378,292)	(308,325)
Financial expenses	(235,662)	(177,245)
Other operational expenses	(194,055)	(178,689)
Other overhead costs	(177,726)	(155,413)
Depreciation and amortization expenses	(176,300)	(127,486)
Other expenses from operating activities	(161,586)	(100,886)
Expenses from investing activities	(876)	(1,480)
Expense from investment accounted for by equity method		(32)-
Changes in inventories	90,984	326,709
Total expenses	(9,079,581)	(7,095,946)

21. OTHER OPERATING INCOME / EXPENSES

	31 March 2019	31 March 2018
Other operating income		
Foreign exchange gains		
related to trade receivables and payables	94,631	85,480
Unearned financial income	50,603	40,348
License income	3,852	2,727
Rent income	2,924	1,465
Price difference and claim recovery	1,641	5,675
Commission income	894	1,084
Other	7,671	11,794
	162,216	148,573

	31 March 2019	31 March 2018
Other operating expenses		
Unearned financial expense	(144,594)	(65,337)
Foreign exchange losses		
related to trade receivables and payables	(12,156)	(33,066)
Other	(4,836)	(2,483)
	(161,586)	(100,886)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 1 JANUARY - 31 MARCH 2019

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22. FINANCIAL INCOME

	31 March 2019	31 March 2018
Foreign exchange gains	78,192	86,273
Interest income	31,358	20,032
	109,550	106,305

23. FINANCIAL EXPENSES

	31 March 2019	31 March 2018
Foreign exchange losses	(208,722)	(157,599)
Interest expenses	(17,619)	(10,994)
Other	(9,321)	(8,652)
	(235,662)	(177,245)

24. TAX ASSETS AND LIABILITIES

Corporate Tax Law was amended by the Law No, 5520 dated June 13, 2006. Law No, 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from January 1, 2006. Accordingly, the corporate tax rate for the fiscal year 2019 is 22% (31 December 2018: %22). Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc.) and corporate income tax deductions (e.g. research and development expenditures deduction). No further tax is payable unless the profit is distributed.

15% withholding tax rate applies to dividends distributed by resident corporations resident real persons except for, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations. Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

The temporary tax paid during the year belongs to that year and is deducted from the corporation tax that will be calculated over the tax declaration of the institutions to be given in the following year. If the temporary tax amount paid remains in spite of the indictment, this amount can be refunded or any other financial debt to the state can be deducted.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax declarations to the Tax Office within the 25th of the fourth month following the close of the financial year.

Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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24. TAX ASSETS AND LIABILITIES (Continued)

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There are many exceptions to the Institutions Tax Law. These exceptions to the Company are explained below:

Dividend gains from shares in capital of another corporation subject to resident taxpaying (except dividends from investment funds participation certificates and investment trusts shares) are exempt from corporate.

The Company capitalizes the R&D expenses made within the scope of the Code no 5746 in its legal books. According to the provisions of the same Code, the Company makes calculation within the framework of the related legislation over the R&D expenses incurred, and utilizes R&D deduction exemption at the rate of 100% for the portion of expenses allowed by the Code.

As of 31 March 2019, the Company utilised R&D incentive exemption amounting of TRY108,420 (31 March 2018: TRY103,147) in return for the legal tax.

Within the scope of the 2009/15199 Decree of the Council of Ministers on State Aid for Investments, the Company has received a Large-Scale Investment Incentive Certificate with an investment contribution rate of 30% for investments in the New Generation Transit and new product Transit Custom model. The total investment amount is TRY559,295 investment expenditures have been made, the document closed in 2013.

Within the scope of the "Decree of the Council of Ministers on State Aids in Investments" number 2012/3305 re-arranging the investment incentive system;

- In the Kocaeli Gölcük Plant, for the New Generation Transit expenditures, amounting to TRY1,194,398 in 2013 (with the investment expenditure of TRY1,300,573 in 2017, the document was closed in 2018),
- In Kocaeli Yeniköy Plant, for the new model Transit Courier investment, amounting to TRY697,394 in 2013 (completed with investment expenditures of TRY798,311 in 2016 and the document was closed in 2018),
- For the production of new 6 and 4-cylinder engines for use in Ford Cargo Truck and Ford Transit vehicles at the Eskişehir İnönü Plant, in 2013 amounting to TRY187,379,
- In Eskişehir İnönü Plant, for Euro 6 emission truck manufacturing expense investment amounting to TRY331,362 in 2014,
- For the renewal and factory modernization investments of Ford Transit, Ford Transit Courier and Ford Transit Custom models, which are still in production at Kocaeli Plant, in 2016 amounting to TRY849,160.

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24. TAX ASSETS AND LIABILITIES (Continued)

Priority Investment Incentive Certificates were received. These investments have an investment contribution rate of 40% and the investment of Kocaeli Gölcük Plant, which exceeds 1 billion TRY, benefits from the contribution rate of 10% additional investment. This period was extended to 31.12.2019 with the decision no. 798 on the amendment to the dair Decree on State Aid for Investments 79 numbered 2012/3305 dated 28.02.2019 and published in the Official Gazette No. 30700.

As of the date of the balance sheet, the investment expenditures amounting to TRY3,749,649 (31 March 2018: TRY2,883,236) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TRY81,426 (31 March 2018: TRY51,357) in the current year and this amount has been deducted from the total deferred tax asset.

The Company's net tax position as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019	31 December 2018
Current year corporate tax expense	(6,661)	(16,969)
Prepaid tax and withholding	8,439	8,439
Current years' profit tax asset / (liability)	1,778	(8,530)

The taxation on income for the periods ended 31 March 2019 and 2018 are as follows

	31 March 2019	31 March 2018
Current year corporate tax expense	(6,661)	(5,381)
Current year tax effect of cash flow hedge (*)	(11,268)	(27,603)
Other deferred tax	19,230	23,897
Deferred tax income/(expense)	7,962	(3,706)
Continuing operations tax (expense)/income	1,301	(9,087)

(*) The amount represents the tax effect of the reclassification made between the statement of income and other comprehensive income relating to the cash flow hedge transactions.

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24. TAX ASSETS AND LIABILITIES (Continued)

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at 31 March 2019 and 2018 and current tax ratio based on income before tax is as follows:

	31 March 2019	31 March 2018
Income before tax:	476,659	441,352
Effective tax rate	%22	%22
Current year tax expense	(104,865)	(97,098)
Research and development deductions	23,852	22,692
Investment incentive exemption	81,317	66,522
Other	997	(1,203)
	1,301	(9,087)

Şirket, ertelenmiş gelir vergisi varlık ve yükümlülüklerini, finansal durum tablosu kalemlerinin TFRS ve vergiye esas yasal finansal tabloları arasındaki farklı değerlendirmelerin sonucunda ortaya çıkan geçici farkların etkilerini dikkate alarak hesaplamaktadır.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on the Amendment of Certain Tax Laws and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 March 2019 are calculated with 22% tax rate for the temporary differences which will be realized in 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at 31 March 2019 and 31 December 2018 using the current enacted tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
Deferred tax assets:				
Investment incentive tax asset	4,368,448	4,190,692	820,205	820,314
Expense accruals and other provisions	404,956	283,018	87,443	60,838
Employee benefits provision	175,793	170,925	35,159	34,185
Warranty expense provision	207,039	194,326	44,737	41,961
Inventories	81,521	79,505	17,935	17,491
	5,237,757	4,918,466	1,005,479	974,789
Deferred tax liabilities:				
Tangibles and intangibles	1,716,352	1,563,960	(343,270)	(312,792)
Income accruals and other	7,661	81,744	(1,940)	(17,822)
	1,724,013	1,645,704	(345,210)	(330,614)
Net deferred tax asset			660,269	644,175

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24. TAX ASSETS AND LIABILITIES (Continued)

The deferred tax movement table is presented below:

	1 January 2019	Charged to Statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	31 March 2019
Deferred tax liabilities:				
Tangible and intangible assets	(312,792)	(30,478)	-	(343,270)
Income accruals and other	(17,822)	15,999	(117)	(1,940)
Deferred tax assets:				
Investment incentive tax asset	820,314	(109)	-	820,205
Expense accruals and other	60,838	26,605	-	87,443
Provision for employee benefits	34,185	3,993	(3,019)	35,159
Warranty expense provision	41,961	2,776	-	44,737
Inventories	17,491	444	-	17,935
Deferred tax asset, net	644,175	19,230	(3,136)	660,269
	1 January 2018	Charged to Statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	31 March 2018
Deferred tax liabilities:				
Tangible and intangible assets	(291,918)	1,522	-	(290,396)
Income accruals and other	(15,686)	9,094	68	(6,524)
Deferred tax assets:				
Investment incentive tax asset	764,963	15,165	-	780,128
Expense accruals and other	86,416	(9,139)	-	77,277
Provision for employee benefits	26,345	2,639	351	29,335
Warranty expense provision	50,520	(94)	-	50,426
Inventories	5,803	4,710	-	10,513
Deferred tax asset, net	626,443	23,897	419	650,759

25. EARNINGS PER SHARE

	31 March 2019	31 March 2018
Net profit for the year	477,960	432,265
Weighted average number of shares with nominal	35,091,000,000	35,091,000,000
Earnings per share with nominal value of Kr 1 each	1.36 Kr	1.23 Kr

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 1 JANUARY - 31 MARCH 2019

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

26. RELATED PARTY DISCLOSURES

Related party can be defined according to whether one of the companies has control over the others or has significant effect on its financial and administrative decisions. The Company, is controlled by Koç Holding A.Ş. and Ford Motor Company. In the financial statements, shareholder companies, shareholders and financial fixed assets and other group companies’ assets are shown as related parties.

The related party balances at 31 March 2019 and 31 December 2018 and the transactions with related parties during the year are as follows:

a) **Receivables from related parties**

i) *Trade receivable from related parties*

	31 March 2019	31 December 2018
Due from shareholders		
Ford Motor Company and its subsidiaries	2,060,951	1,580,589
	2,060,951	1,580,589
Due from group companies (*)		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	464,373	513,489
Other	4,999	1,166
	469,372	514,655
Less: Unearned credit finance income	(10,629)	(12,981)
	2,519,694	2,082,263

(*) The Company’s shareholders’ subsidiaries and affiliate.

Export sales mainly consist of sales to Ford Motor Company. Payments terms and conditions are specified in the business agreements with Ford Motor Company. Export vehicle receivables from the Ford Motor Company are due in 14 days and receivables are collected regularly.

Per the domestic dealership agreement between Ford Otomotiv Sanayi A.Ş. and Otokoç Otomotiv Ticaret ve Sanayi A.Ş., the Companies have a vehicle and spare parts trade connection. As mentioned in Note 7, the Company’s vehicle sales receivables from Otokoç Otomotiv Ticaret ve Sanayi A.Ş. is due in 25 days on average and sales of spare parts is due in 70 days on average.

FORD OTOMOTİV SANAYİ A.Ş.

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26. RELATED PARTY DISCLOSURES (Continued)

b) Payables to related parties

i) Trade payables to related parties

	31 March 2019	31 December 2018
Due to shareholders		
Ford Motor Company and its subsidiaries	840,997	513,781
	840,997	513,781
Trade payables due to related parties (*)		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	56,609	72,532
Ram Dış Ticaret A.Ş.	32,424	47,228
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	12,838	24,669
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	17,841	19,261
Setur Servis Turistik A.Ş.	4,648	14,714
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	4,278	3,873
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	2,960	2,763
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,904	1,507
Ram Sigorta Aracılık Hizmetleri A.Ş.	3,441	93
Other	4,333	5,907
	141,276	192,547
Less: Unearned credit finance expense	(2,067)	(2,761)
	980,206	703,567

(*) The Company's shareholders' subsidiaries, business associates and affiliates.

ii) Other payables to related parties

	31 March 2019	31 December 2018
Ford Motor Company (*)	349,913	-
Koç Holding A.Ş. (*)	331,833	13,220
Vehbi Koç Vakfı (*)	8,647	-
Koç Holding Emekli ve Yardım Sandığı Vakfı (*)	7,920	-
Temel Ticaret ve Yatırım A.Ş. (*)	5,725	-
Koç Finansman A.Ş.	-	9,676
Yapı ve Kredi Bankası A.Ş.	-	8,425
Other (*)	152,570	-
	856,608	31,321

(*) The balances of 31 March 2019 include the dividend payables to the shareholders and the dividend payables paid in April 2019.

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26. RELATED PARTY DISCLOSURES (Continued)

c) Sales to related parties

	31 March 2019	31 March 2018
Ford Motor Company (*)	7,960,039	5,636,556
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	292,398	341,186
Other	8	3
	8,252,445	5,977,745
Less: Financial income from credit sales	(13,469)	(9,122)
	8,238,976	5,968,623

(*) The Company, exports vehicle, spare parts and engineering service to Ford Motor Company.

(**) The Company has a vehicle and spare parts trade in accordance with domestic dealer agreement with Otokoç Otomotiv Ticaret ve Sanayi A.Ş.

d) Material, service and fixed asset purchases from related parties

	1 January - 31 March 2019			
	Material	Service	Fixed assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	75,318	75,348	30	150,696
Ram Dış Ticaret A.Ş.	27,795	-	-	27,795
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	7,948	332	8,280
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	6,836	-	-	6,836
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	5,654	767	6,421
Setur Servis Turistik A.Ş.	-	5,410	-	5,410
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	4,991	-	4,991
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	4,587	-	-	4,587
Koç Holding A.Ş. (**)	-	3,303	-	3,303
Koçtaş Yapı Marketleri Ticaret A.Ş.	3,282	-	-	3,282
Opet Petrolcülük A.Ş.	2,517	-	-	2,517
Tanı Pazarlama İlet. Hiz. A.Ş.	-	167	-	167
Other	2,554	6,365	-	8,919
	122,889	109,186	1,129	233,204
Less: Financial expense from credit purchases	(4,599)	-	-	(4,599)
	118,290	109,186	1,129	228,605

(*) Contains paid and accrued premium amounts for the period ended 31 March 2019 and period ended 2018 within the context of insurance policies signed with insurance companies through the agency of Ram Sigorta Aracılık Hizmetleri A.Ş.

(**) It includes service costs that are based on finance, law, planning, tax and management provided by Koç Holding A.Ş. to the companies within the group organisation, invoiced to the company within the context of "11-Intra-group Services" in numbered 1 General Communique about concealed Gain Distribution by Transfer Pricing.

FORD OTOMOTİV SANAYİ A.Ş.

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26. RELATED PARTY DISCLOSURES (Continued)

	1 January - 31 March 2018			Total
	Material	Service	Fixed assets	
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	5,883	72,515	15	78,413
Ram Dış Ticaret A.Ş.	38,468	-	-	38,468
Setur Servis Turistik A.Ş.	-	9,746	-	9,746
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	2,509	3,389	5,898
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	5,732	-	-	5,732
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	5,345	-	5,345
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	1,596	3,386	4,982
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3,702	-	-	3,702
Koç Holding A.Ş. (**)	-	2,920	-	2,920
Koçtaş Yapı Marketleri Ticaret A.Ş.	2,758	-	-	2,758
Opet Petrolcülük A.Ş.	1,271	-	-	1,271
Tanı Pazarlama İlet. Hiz. A.Ş.	-	203	-	203
Other	3,842	1,114	-	4,956
	61,656	95,948	6,790	164,394
Less: Financial expense from credit purchases	(1,388)	-	-	(1,388)
	60,268	95,948	6,790	163,006

Material, vehicle and service purchases from abroad

	31 March 2019	31 March 2018
Ford Motor Company and its subsidiaries	3,649,378	3,329,729

e) License fees paid to Ford Motor Company included in cost of sales

	31 March 2019	31 March 2018
	25,026	28,128

f) License fees received from Jiangling Motors Corporation, a subsidiary of Ford Motor Company, included in other income

	31 March 2019	31 March 2018
	3,852	2,727

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26. RELATED PARTY DISCLOSURES (Continued)

g) Donations to related parties, establishments and foundations, included in general administrative expenses

	31 March 2019	31 March 2018
	8,564	8,748

h) The details of deposits in related banks and loans obtained from related banks

Deposits in related banks

Yapı ve Kredi Bankası A.Ş.

	31 March 2019	31 December 2018
- TRY time deposits	179,084	401,422
- Foreign currency time deposits	130,906	14,468
- TRY demand deposits	27,567	10,713
- Foreign currency demand deposits	122	992
	337,679	427,595

i) Loans from related banks

	31 March 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş.	2,789	10,331
	2,789	10,331

i) Commission income

	31 March 2019	31 March 2018
Koç Finansman A.Ş.	494	692
Yapı ve Kredi Bankası A.Ş.	399	392
	893	1,084

j) Commission expense

	31 March 2019	31 March 2018
Koç Finansman A.Ş.	8,690	12,092
Yapı ve Kredi Bankası A.Ş.	9,262	3,482
	17,952	15,574

Commissions paid to Koç Tüketici Finansmanı A.Ş. and Yapı ve Kredi Bankası A.Ş. are credit commissions related to sales to end user customers by dealers and are recorded as sales discounts in the statement of profit or loss.

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26. RELATED PARTY DISCLOSURES (Continued)

k) Interest income

	31 March 2019	31 March 2018
Yapı ve Kredi Bankası A.Ş.	4,785	4,612

l) Dividend income

	31 March 2019	31 March 2018
Otokar Otomotiv ve Savunma Sanayi A.Ş.	422	410

m) Compensation of key management personnel

The Company defines its key management personnel as board of directors' members, general manager, assistant general managers and directors reporting directly to the general manager (Note 2).

Compensation of key management personnel includes salaries, premiums, Social Security Institution employer's contribution, employer's contribution of unemployment insurance and the attendance fees.

The total amount of compensation given to key management personnel of the Company as of 31 March 2019 is TRY3,940 (31 March 2018: TRY4,814).

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below summarizes the Company's exposure to foreign currency exchange rate risk at 31 March 2019 and 31 December 2018. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

31 March 2019

	TRY Equivalent (Functional currency)	USD	EUR	Other
1. Trade receivables	2,268,230	11,388	348,822	-
2. Monetary financials assets (including cash and cash equivalents)	1,002,235	54	158,357	846
3. Other	385,235	14,188	48,329	-
4. Current assets (1 + 2 + 3)	3,655,700	25,630	555,508	846
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4 + 6)	3,655,700	25,630	555,508	846
8. Trade payables	1,069,395	23,293	148,288	10,705
9. Financial liabilities (*)	3,538,670	-	560,022	-
10. Other monetary liabilities	5,215	-	825	-
11. Short term liabilities (8 + 9 + 10)	4,613,280	23,293	709,135	10,705
12. Financial liabilities (*)	1,766,797	-	279,610	-
13. Other	30,030	-	4,752	-
14. Long term liabilities (12+13)	1,796,827	-	284,362	-
15. Total liabilities (11 + 14)	6,410,107	23,293	993,497	10,705
16. Net foreign currency (liabilities)/assets position (7 - 15)	(2,754,407)	2,337	(437,989)	(9,859)
17. Net monetary foreign currency (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(3,109,612)	(11,851)	(481,566)	(9,859)

(*) The Company's net foreign exchange position is mainly due to long - term Euro denominated loans obtained to fund its investments. The Company is hedging for the foreign currency exchange risk arising from its Euro denominated long-term loans with export agreements signed with Ford Motor Company. The TRY equivalent of such loans amount to TRY2,727,190 as of 31 March 2019 (31 December 2018: TRY2,632,800). As of 31 March 2019, the Company has a total of TRY188,402 (31 December 2018: TRY84,935) of the product to be issued.

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2018

	TRY Equivalent (Functional currency)	USD	EUR	Other
1. Trade receivables	1,786,228	12,648	285,283	-
2. Monetary financials assets (including cash and cash equivalents)	488,525	196	80,724	634
3. Other	338,156	8,400	48,767	-
4. Current assets (1 + 2 + 3)	2,612,909	21,244	414,774	634
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4 + 6)	2,612,909	21,244	414,774	634
8. Trade payables	754,269	16,366	108,289	10,778
9. Financial liabilities (*)	2,793,931	-	463,493	-
10. Other monetary liabilities	5,871	-	974	-
11. Short term liabilities (8 + 9 + 10)	3,554,071	16,366	572,756	10,778
12. Financial liabilities (*)	1,678,554	-	278,460	-
13. Other	29,341	-	4,867	-
14. Long term liabilities (12+13)	1,707,895	-	283,327	-
15. Total liabilities (11 + 14)	5,261,966	16,366	856,083	10,778
16. Net foreign currency (liabilities)/assets position (7 - 15)	(2,649,057)	4,878	(441,309)	(10,144)
17. Net monetary foreign currency (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(2,957,872)	(3,522)	(485,209)	(10,144)

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk

The Company is exposed to foreign exchange risk primarily against Euro and partly against USD. The foreign exchange risk of the Company arises from long-term Euro investments.

31 March 2019

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	%10 Increase by	%10 Decrease by
Change in USD against TRY		
USD net assets/(liabilities)	1,315	(1,315)
USD net hedged amount	-	-
USD net- gain/(loss)	1,315	(1,315)
Change in EUR against TRY		
EUR net (liabilities)/assets	(276,756)	276,756
EUR net hedged amount	272,719	(272,719)
EUR net- gain/(loss)	(4,037)	4,037
Change in other foreign currency against TRY		
Other foreign currency denominated net (liabilities)/assets	1	(1)
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	1	(1)

31 December 2018

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	Increase by 10%	Decrease by 10%
Change in USD against TRY		
USD net assets/(liabilities)	2,566	(2,566)
USD net hedged amount	-	-
USD net- gain/(loss)	2,566	(2,566)
Change in EUR against TRY		
EUR net (liabilities)/assets	(266,021)	266,021
EUR net hedged amount	263,280	(263,280)
EUR net- gain/(loss)	(2,741)	2,741
Change in other foreign currency against TRY		
Other foreign currency denominated net (liabilities)/assets	(1,452)	1,452
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	(1,452)	1,452

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The comparative amounts for total export and import amounts for the year ended 31 March 2019 and 2018 are as follows:

	31 March 2019	31 March 2018
Total export amount	8,141,113	5,728,030
Total import amount	4,209,430	3,651,771

The Company's net assets are exposed to foreign exchange risk which arises from export sales. To minimize its foreign currency risk, the Company follows a balanced foreign currency position policy. The foreign currency exposure arising from foreign currency denominated borrowings and trade payables is managed through assets denominated in foreign currency.

Interest rate risk

The Company's interest rate sensitive financial instruments are as follows:

	31 March 2019	31 December 2018
Fixed interest rate financial instruments		
Financial assets	2,058,275	1,361,594
Financial liabilities	3,773,264	2,967,869
Floating interest rate financial instruments		
Financial liabilities	1,567,651	1,514,948

If the interest rates of floating interest-bearing Euro denominated borrowings were 100 basis points higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TRY5,592 at 31 March 2019 (31 December 2018: TRY2,016) due to higher/lower interest expense.

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(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)*Liquidity risk*

The table below shows the liquidity risk arising from financial liabilities of the Company:

31 March 2019	Book value	Total contractual cash outflow	Up to 3 months	Between 3-12 months	Between 1-5 years	Longer than 5 years
Non-derivative financial instruments						
Financial liabilities	5,234,457	5,332,869	1,451,350	2,075,376	1,699,791	106,352
Lease liabilities	106,458	143,105	11,338	34,015	90,783	6,969
Trade payables						
- Related party	980,206	982,273	982,273	-	-	-
- Other	3,501,315	3,548,608	3,548,608	-	-	-
Other liabilities						
- Related party	856,608	856,608	856,608	-	-	-
- Other	63,697	63,697	63,697	-	-	-
Derivative financial liabilities						
Derivative financial instruments	98	98	-	98	-	-

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2018	Book value	Total contractual cash outflow	Up to 3 months	Between 3-12 months	Between 1-5 years	Longer than 5 years
Non-derivative financial instruments						
Financial liabilities	4,482,817	4,576,740	799,078	2,011,021	1,665,184	101,457
Lease liabilities	-	-	-	-	-	-
Trade payables						
- Related party	703,567	706,328	706,328	-	-	-
- Other	3,319,120	3,364,101	3,364,101	-	-	-
Other liabilities						
- Related party	31,321	31,321	31,321	-	-	-
- Other	34,661	34,661	34,661	-	-	-
Derivative financial liabilities						
Derivative financial instruments	93	93	-	93	-	-

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy table

The Company classifies the fair value measurement of financial instruments reported at fair value according to their source of valuation inputs, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques that includes direct or indirect observable inputs

Level 3: Valuation techniques that does not contain observable market inputs

As of 31 March 2019 and 31 December 2018, the Company's hierarchy table for its assets and liabilities recorded at fair value are as follows:

31 March 2019

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	-	-
Financial asset available-for-sale - Otokar	14,749	-	-
Total assets	14,749	-	-
Liabilities at fair value			
Derivative financial liabilities	-	98	-
Total liabilities	-	98	-

(*) Fair value is calculated at market prices per the Stock Exchange market at the reporting date.

(**) Fair value is calculated from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2018

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	-	-
Financial asset available-for-sale - Otokar	12,408	-	-
Total assets	12,408	-	-
Liabilities at fair value			
Derivative financial liabilities	-	93	-
Total liabilities	-	93	-

(*) Fair value is calculated at market prices per the Stock Exchange market at the reporting date.

(**) Fair value is calculated from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

28. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses long term floating rate foreign currency loans from international markets. The Company hedges interest rate risk by securing a portion of the floating rate loans from international markets through long term swap transactions.

The Company hedged the interest rate risk arising from cash flows related to the borrowing used as of 31 March 2019 with the maturity of 3 November 2019 amounting to Euro25,714,286 with interest rate swapping. The critical conditions of the settlement contract such as maturity, payment, interest rate change dates are in line with the critical conditions of the foreign currency borrowing, which is the subject of financial hedge as of 31 March 2019. The fair value of the interest rate swap transaction calculated as of 31 March 2019 is TRY98 and it is classified as short - term liabilities.

Derivative financial instruments

	31 March 2019	31 December 2018
Derivative financial liabilities	98	93
	98	93

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28. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

There is an effective foreign currency cash flow hedge relationship between foreign currency long-term financial borrowings related with investment expenditures (non-derivative hedging instrument) and highly probable forecast transaction export sales receivables (hedged item). In the frame of the manufacturing agreement signed with Ford Motor Company, the Company will associate a portion of estimated export revenue from 1 April 2013 to June 2024 with long-term financial borrowings.

	31 March 2019	31 December 2018
Cash flow hedge reserve		
Amount recognized in other comprehensive income	125,483	788,991
Amount recycled from other comprehensive income to statement of profit or (loss)	(72,659)	(415,963)
	52,824	373,028

29. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	31 March 2019	31 March 2018
Income from investing activities		
Dividend income	422	410
	422	410

	31 March 2019	31 March 2018
Expense from investing activities		
Loss on sale of property, plant and equipment	(876)	(1,480)
	(876)	(1,480)

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30. DEFERRED REVENUE

	31 March 2019	31 December 2018
Short-term deferred revenue	7,176	6,704
Advances received	5,117	6,515
	12,293	13,219

	31 March 2019	31 December 2018
Long-term deferred revenue	7,841	7,479
	7,841	7,479

31. OTHER NON CURRENT LIABILITIES

	31 March 2019	31 December 2018
Other non-current liabilities (*)	53,212	52,508
	53,212	52,508

(*) The Company makes a part of its fleet truck with buyback commitments and sales made within this scope are followed under “Other Non-Current Liabilities”. The buyback commitments are 3 years on average.

32. INVESTMENTS VALUED BY EQUITY METHOD

The Company has a 25% share in Rezervis Mobil Teknoloji A.Ş., which was established for the purpose of developing, improving and acquiring the algorithmic based application that remodeling the individual and collective use of the means of transportation within the scope of supporting innovation.

a) The details of the investments valued by the equity method are as follows:

	31 March 2019		31 December 2018	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Rezervis Mobil Teknoloji A.Ş.	25	901	25	933
		901		933

b) Movements in the provision for investments valued by the equity method during the year are as follows:

	2019	2018
1 January	933	-
Profit / (losses) share	(32)	-
31 March	901	-

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33. RIGHT OF USE ASSETS

During the period, the Company has capitalized on the use right of TL 137,028. As of March 31, 2019, the net book value of the right to use assets is TL 126,267. As of March 31, 2019 and January 1, 2019, the balances of the right to use assets and the depreciation and amortization expenses in the related period are as follows:

	Buildings	Machinery and equipment	Vehicles	Total
As of 1 January 2019	50,003	63,310	23,715	137,028
Period depreciation and amortization expenses	(3,668)	(4,277)	(2,816)	(10,761)
As of 31 March 2019	46,335	59,033	20,899	126,267

Distribution of depreciation expenses of right of use assets 31 March 2019 and 2018 are as follows:

	31 March 2019	31 March 2018
Cost of production (Note 18)	7,222	-
Marketing expenses (Note 19)	2,546	-
General administrative expenses (Note 19)	525	-
Research and development expenses (Note 19)	468	-
	10,761	-

34. GOVERNMENT INCENTIVES AND GRANTS

Within the scope of the 2009/15199 Decree of the Council of Ministers on State Aid for Investments, the Company has received a Large-Scale Investment Incentive Certificate with an investment contribution rate of 30% for investments in the New Generation Transit and new product Transit Custom model. The total investment amount is TRY559,295 investment expenditures have been made, the document closed in 2013.

Within the scope of the "Decree of the Council of Ministers on State Aids in Investments" number 2012/3305 re-arranging the investment incentive system;

- In the Kocaeli Gölcük Plant, for the New Generation Transit expenditures, amounting to TRY1,194,398 in 2013 (completed with investment expenditures of TRY1,300,573 in 2017, the document was closed in 2018),
- In Kocaeli Yeniköy Plant, for the new model Transit Courier investment, amounting to TRY697,394 in 2013 (completed with investment expenditures of TRY798,311 in 2016 and the document was closed in 2018),
- For the production of new 6 and 4-cylinder engines for use in Ford Cargo Truck and Ford Transit vehicles at the Eskişehir İnönü Plant, in 2013 amounting to TRY187,379,

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34. GOVERNMENT INCENTIVES AND GRANTS (Continued)

- In Eskisehir Inonu Plant, for Euro 6 emission truck manufacturing expense investment amounting to TRY331,362 in 2014,
- For the renewal and factory modernization investments of Ford Transit, Ford Transit Courier and Ford Transit Custom models, which are still in production at Kocaeli Plant, in 2016 amounting to TRY849,160, Priority Investment Incentive Certificates. These investments have an investment contribution rate of 40% and the investment of Kocaeli Gölcük Plant, which exceeds 1 billion TRY, benefits from the contribution rate of 10% additional investment. With the Decision of Council of Ministers dated 13.02.2017 numbered 2017/9917; 15 points have been added to the investment contribution rate for the investment expenditures to be realized between 01.01.2017 - 31.12.2017. This period has been extended until 31.12.2019 with the decision no. 798 on the amendment to the larda Decree on State Aid in Investments dair numbered 2012/3305 dated 28.02.2019 and published in the Official Gazette No. 30700.

35. SUBSEQUENT EVENTS

At the Ordinary General Assembly held on March 15, 2019, the Company decided to distribute a dividend of TL 852,711 and make dividend payments at a rate of 243% with a gross amount of TL 2.43 (net 206,55 Kuruş) and a dividend payment of 1 TL from its 2018 profit as of 1 April 2019.

36. DISCLOSURE OF OTHER MATTERS

There are no other matters other than stated above, which would materially affect or that would have material effect on the financial statements, required for the purpose of understanding and interpreting the financial statements.

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