

FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS FOR THE PERIOD
1 JANUARY – 30 JUNE 2021**

(ORIGINALLY ISSUED IN TURKISH)

FORD OTOMOTİV SANAYİ A.Ş.

FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 30 JUNE 2021

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FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021 AND 31 DECEMBER 2020**

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

	Notes	Current period reviewed 30 June 2021	Prior period audited 31 December 2020
Assets			
Current assets		16,178,935	17,604,522
Cash and cash equivalents	4	5,033,590	8,124,073
Trade receivables			
- Due from related parties	26	4,130,583	3,207,939
- Due from third parties	7	1,487,380	2,546,243
Other receivables			
- Due from third parties	8	6,477	1,457
Inventories	9	4,623,782	2,449,043
Prepaid expenses	12	396,075	221,872
Other current assets	16	498,173	1,053,895
Assets related to current period tax	24	2,875	-
Non-current assets		7,476,797	6,744,657
Financial assets	5	39,087	44,767
Trade receivables			
- Due from third parties	7	4,521	3,950
Property, plant and equipment	10	4,438,241	4,403,373
Intangible assets	11	1,047,703	904,839
Right of use assets	32	75,002	68,919
Prepaid expenses	12	688,367	359,729
Deferred tax assets	24	1,176,542	954,246
Investments in associates and joint ventures	34	7,334	4,834
Total assets		23,655,732	24,349,179

Financial statements for the period ended 1 January – 30 June 2021 were approved for issue by the Board of Directors on 6 August 2021.

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

FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021 AND 31 DECEMBER 2020**

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

	Notes	Current period reviewed 30 June 2021	Prior period audited 31 December 2020
Liabilities			
Current liabilities		12,002,385	12,480,781
Short-term borrowings			
- Bank borrowings	6	2,535,715	2,240,949
Short-term portion of long-term borrowings			
- Bank borrowings	6	2,553,783	1,660,704
- Lease liabilities	6	40,898	31,228
Trade payables			
- Due to related parties	26	2,200,336	1,178,339
- Due to third parties	7	4,038,923	6,569,454
Other payables			
- Due to related parties	26	5,511	34,350
- Due to third parties	8	145,214	141,846
Deferred income	30	55,139	43,037
Short-term provisions			
- Other provisions	13	219,655	273,245
Employee benefit liabilities	15	207,211	290,077
Current tax liabilities	24	-	17,552
Non-current liabilities		4,677,594	4,824,496
Long-term borrowings			
- Bank borrowings	6	3,831,912	4,096,515
- Lease liabilities	6	52,784	51,478
Long-term provisions			
- Provision for employment termination benefits	15	426,597	361,058
- Other provisions	13	312,232	273,453
Deferred income	30	35,173	22,040
Other non-current liabilities	31	17,835	18,699
Derivative financial liabilities	28	1,061	1,253
Equity	17	6,975,753	7,043,902
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		(31,573)	(18,359)
- Gains from financial assets measured at fair value through other comprehensive income		36,204	41,600
Other comprehensive income/(loss) to be reclassified in profit or loss			
- Losses on cash flow hedges		(1,788,386)	(1,431,512)
Restricted reserves		634,023	410,493
Retained earnings		4,928,070	3,467,929
Net profit for the period		2,818,577	4,194,913
Total liabilities and equity		23,655,732	24,349,179

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 30 JUNE 2021 AND 2020

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

	Notes	Reviewed 1 January 2021 - 30 June 2021	Not audited 1 April 2021 - 30 June 2021	Reviewed 1 January 2020 - 30 June 2020	Not audited 1 April 2020 - 30 June 2020
Continuing operations					
Revenue	18	26,786,744	10,532,602	15,093,915	5,727,306
Cost of sales	18	(23,201,463)	(9,015,394)	(13,343,546)	(5,048,454)
Gross profit		3,585,281	1,517,208	1,750,369	678,852
Marketing expenses	19	(441,659)	(232,435)	(275,225)	(115,843)
General administrative expenses	19	(309,260)	(139,213)	(188,107)	(74,375)
Research and development expenses	19	(274,316)	(144,797)	(204,185)	(83,056)
Other income from operating activities	21	601,796	220,536	333,074	116,016
Other expenses from operating activities	21	(359,602)	(139,715)	(151,408)	(50,732)
Profit from operating activities		2,802,240	1,081,584	1,264,518	470,862
Income from investing activities	29	2,464	-	1,172	-
Expenses from investing activities	29	(1,466)	(1,466)	(728)	(442)
Operating income before financial income/(expense)		2,803,238	1,080,118	1,264,962	470,420
Financial income	22	1,279,414	508,840	436,259	235,210
Financial expenses	23	(1,290,127)	(613,612)	(809,429)	(425,687)
Profit from continuing operations before tax		2,792,525	975,346	891,792	279,943
Tax income/(expense) from continuing operations		26,052	23,857	17,645	65
- Tax expenses for the period	24	(25,929)	(13,028)	(4,025)	632
- Deferred tax (expense)/income	24	51,981	36,885	21,670	(567)
Net profit		2,818,577	999,203	909,437	280,008
Earnings per share with a nominal value Kr	25	8.03 Kr	2.85 Kr	2.59 Kr	0.80 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 30 JUNE 2021 AND 2020

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

	Notes	Reviewed 1 January 2021 - 30 June 2021	Not audited 1 April 2021 - 30 June 2021	Reviewed 1 January 2020 - 30 June 2020	Not audited 1 April 2020 - 30 June 2020
Net profit		2,818,577	999,203	909,437	280,008
Other comprehensive income/(expense)					
Other comprehensive income not to be reclassified to profit or loss					
Gains/(losses) on remeasurements of defined benefit plans	17	(16,517)	(20,578)	(3,380)	(9,681)
Gains/(losses) from financial assets measured at fair value through other comprehensive income	17	(5,680)	(11,937)	(1,301)	6,474
Other comprehensive income taxes not to be reclassified to profit or loss					
Taxes relating to remeasurements of defined benefit plans	17	3,303	4,115	676	1,936
Taxes relating to gains/(losses) from financial assets measured at fair value through other comprehensive income	17	284	597	65	(324)
Other comprehensive income to be reclassified to profit or loss					
Other comprehensive income relating to cash flow hedges	17	(459,002)	(83,898)	(406,021)	(180,979)
Other comprehensive income taxes to be reclassified to profit or loss					
Taxes relating to cash flow hedges	17	102,128	29,530	80,275	35,145
Other comprehensive (loss)		(375,484)	(82,171)	(329,686)	(147,429)
Total comprehensive income		2,443,093	917,032	579,751	132,579

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS 30 JUNE 2021 AND 2020

(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 2020	350,910	27,920	8	20,309	(2,060)	(705,427)	302,764	2,711,013	1,959,484	4,664,921
Profit for the period	-	-	-	-	-	-	-	-	909,437	909,437
Other comprehensive income/(loss)	-	-	-	(1,236)	(2,704)	(325,746)	-	-	-	(329,686)
Total comprehensive income	-	-	-	(1,236)	(2,704)	(325,746)	-	-	909,437	579,751
Transfers	-	-	-	-	-	-	107,729	1,851,755	(1,959,484)	-
Dividends (Note 17)	-	-	-	-	-	-	-	(1,094,839)	-	(1,094,839)
Balances at 30 June 2020	350,910	27,920	8	19,073	(4,764)	(1,031,173)	410,493	3,467,929	909,437	4,149,833
Balances at 1 January 2021	350,910	27,920	8	41,600	(18,359)	(1,431,512)	410,493	3,467,929	4,194,913	7,043,902
Impact of correction of errors (Note 2.5)	-	-	-	-	-	-	-	(258,400)	-	(258,400)
Revised Balances at 1 January 2021	350,910	27,920	8	41,600	(18,359)	(1,431,512)	410,493	3,209,529	4,194,913	6,775,102
Profit for the period	-	-	-	-	-	-	-	-	2,818,577	2,818,577
Other comprehensive income/(loss)	-	-	-	(5,396)	(13,214)	(356,874)	-	-	-	(375,484)
Total comprehensive income	-	-	-	(5,396)	(13,214)	(356,874)	-	-	2,818,577	2,443,093
Transfers	-	-	-	-	-	-	223,530	3,971,383	(4,194,913)	-
Dividends (Note 17)	-	-	-	-	-	-	-	(2,252,842)	-	(2,252,842)
Balances at 30 June 2021	350,910	27,920	8	36,204	(31,573)	(1,788,386)	634,023	4,928,070	2,818,577	6,975,753

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED 30 JUNE 2021 AND 2020

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

	Notes	Current period reviewed 30 June 2021	Previous period reviewed 30 June 2020
Cash flows generated from/(used in) operating activities		248,800	1,459,253
Net profit for the period		2,818,577	909,437
Adjustments to reconcile profit or loss		1,214,403	1,148,892
Adjustments for depreciation and amortisation expense	10.11.32	509,926	443,599
Adjustments for impairment loss of inventories	9	(8,913)	3,911
Adjustments for provisions related with employee benefits		(23,982)	42,976
Adjustments for lawsuit and/or penalty provisions	13	15,490	8,372
Adjustments for warranty provisions	13	158,427	78,450
Adjustments for other provisions		(63,748)	(21,053)
Adjustments for dividend income	29	(2,343)	(1,172)
Adjustments for interest income	22	(514,165)	(98,237)
Adjustments for interest expense	23	110,898	80,232
Adjustments for tax expenses	24	(26,052)	(17,645)
Adjustments for unearned financing income	21	(184,815)	(63,510)
Adjustments for deferred financing expense	21	303,064	110,352
Adjustments for loss on sales of property, plant and equipment	29	1,345	728
Other adjustments for which cash effects are investing or financing cash flow		939,271	581,889
Changes in working capital		(3,474,295)	(440,587)
Decrease/(increase) in trade receivable		(172,403)	309,816
(Increase)/decrease in inventories		(2,172,507)	(352,523)
(Increase)/decrease in prepaid expenses		(170,662)	(27,233)
Increase/(decrease) in trade payable		(1,513,045)	(952,641)
(Increase)/decrease in other assets		555,422	486,530
Increase/(decrease) in other liabilities		(1,100)	95,464
Cash flows generated from operations		558,685	1,617,742
Interest paid		(318,013)	(117,576)
Interest received		189,326	79,984
Payments related with provisions for employee benefits	15	(9,862)	(7,251)
Payments related with other provisions		(124,980)	(80,371)
Taxes paid		(46,356)	(33,275)
Cash flows used in investing activities		(994,063)	(339,910)
Proceeds from sales of property, plant and equipment		9,400	1,726
Purchase of property, plant and equipment		(434,119)	(262,853)
Purchase of intangible assets		(239,508)	(97,980)
Cash advances given and payables		(332,179)	18,025
Dividends received	29	2,343	1,172
Cash flows (used in)/generated from financing activities		(2,319,877)	868,223
Proceeds from borrowings	6	4,512,004	5,074,428
Cash outflows related to borrowings	6	(4,978,186)	(3,114,466)
Dividends paid	17	(2,252,842)	(1,094,839)
Interest paid		(113,654)	(64,406)
Interest received		539,508	93,814
Cash outflows on debt payments from leasing agreements	6	(26,707)	(26,308)
Net (decrease)/increase in cash and cash equivalents		(3,065,140)	1,987,566
Cash and cash equivalents at the beginning of the period		8,073,629	3,200,229
Cash and cash equivalents at the end of the period	4	5,008,489	5,187,795

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 – 30 JUNE 2021

(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 Company and the Koç Group of Companies. The Company is listed on the Borsa İstanbul (“BIST”) 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 Gölcük 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 Ford Trucks truck 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	
	2021 June	2020 June	2021 June	2020 December
Hourly	9,366	8,295	9,293	9,913
Salaried	3,062	2,629	3,132	2,604
	12,428	10,924	12,425	12,517

Research and development operations which are also subject to service export is conducted with 1,144 employees in Sancaktepe branch, conducted with 256 employees in R&D centre in Kocaeli plant, conducted with 107 employees in R&D centre in Eskişehir İnönü plant, and 11 employees in R&D ODTU Teknokent Office in totally 1,518 employees as of 30 June 2021 (31 December 2020: 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 – 30 JUNE 2021

(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 15 April 2019 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

The 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 30 June 2021 has been provided with the comparative financial information of 31 December 2020 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 – 30 June 2021 have been provided with the comparative financial information, for the period between 1 January 2020 – 30 June 2020.

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 2021 and related to its own activity.

a. Standards, amendments and interpretations applicable as at 30 June 2021:

- **Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions Extension of the Practical expedient;** as of March 2021, this amendment extended till June 2022 and effective from 1 April 2021. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY – 30 JUNE 2021**

(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 IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2;** effective from annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- **Amendments IFRS 4, ‘Insurance contracts’, deferral of IFRS 9;** effective from annual periods beginning on or after 1 January 2021. These amendments change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial Instrument until 1 January 2023.

b. Standards, amendments and interpretations that are issued but not effective as at 30 June 2021:

- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities;** effective from 1 January 2022. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.
- **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after 1 January 2022.
 - **Amendments to IFRS 3, ‘Business combinations’** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
 - **Amendments to IAS 16, ‘Property, plant and equipment’** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
 - **Amendments to IAS 37, ‘Provisions, contingent liabilities and contingent assets’** specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, ‘First-time Adoption of IFRS’, IFRS 9, ‘Financial instruments’, IAS 41, ‘Agriculture’ and the Illustrative Examples accompanying IFRS 16, ‘Leases’.

Annual improvements make minor amendments to IFRS 1, “First - time Adoption of IFRS”, IFRS 9, “Financial instruments”, IAS 41, “Agriculture” and the Illustrative Examples accompanying IFRS 16, “Leases”.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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)

This change has no effect on the financial position and performance of the Company.

- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8;** effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- **Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction;** from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

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”.

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. In the calculation of expected credit losses, the Company takes into account past credit loss experience as well as forecasts for the future. Expected credit losses are accounted for under "other income / expense from operating activities" in the income statement.

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.

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).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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)

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 years
Buildings	14.5 - 36 years
Machinery and equipment	5 - 25 years
Moulds and models	Project lifetime
Furniture and fixtures	4 – 14.5 years
Motor vehicles	9 - 15 years

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).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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 estimated useful lifetimes of such assets are as follows:

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

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 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 of 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.

“*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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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)

“*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.

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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.

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 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.

- It is probable that the Company will collect a price for the goods or services to 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).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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 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 (Note 18, 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.

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 2-3-4 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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)

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).

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

	TRY/USD	TRY/EUR
30 June 2021	8,7052	10,3645
31 December 2020	7,3405	9,0079
30 June 2020	6,8422	7,7082

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.

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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)

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.

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.

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 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.

	30 June 2021	31 December 2020
Net financial debt	3,981,502	(43,199)
EBITDA	7,326,285	5,722,236
Net financial debt / EBITDA (*)	0.54	(0.01)

(*) EBITDA (Earnings before tax depreciation and interest) covering the last four quarters.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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)

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 TRY 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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY – 30 JUNE 2021**

(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)

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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(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)

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).

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.

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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)

(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).

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).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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 36).

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.

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.

TFRS 16 “Leases” Standard

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.

Company - As a Lessee

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 in exchange for consideration.

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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)

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.
- 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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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 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.

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 incremental borrowing interest rate shall be used for discounting.

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

(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)

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.

Company - As Lessor

The Company has no significant activity as a lessor.

2.4 Important Developments Regarding the Current Period

Due to the epidemic of COVID-19, which affects the whole world, the slowdown in economic activities, supply, production and sales in the country and sector where the Company operates and in the countries where the sales are made in parallel with the developments in general economic activities. There have been disruptions in their processes.

In this context, production activities were temporarily suspended, especially during the periods when curfews were imposed. In this process, the necessary actions were taken by the Company management to minimize the possible effects of COVID-19 on the Company's activities and financial status.

After the Covid-19 pandemic, which has affected the whole world since the first quarter of 2020, due to the increasing demands of many sectors for electronic components (microchips), there are difficulties in the supply of in-vehicle electronic components, which have been used more intensely in the automotive sector in recent years.

Our main partner, Ford Motor Company, works with its global suppliers to ensure the efficient use of materials belonging to electronic components by giving priority to the solution of the problem and main production lines. In this context, production was suspended for six days from April 3, 2021 to April 9, 2021, due to the restrictions in the procurement of some parts, where microchip use is intense, at our Gölcük and Yeniköy Plants located in Kocaeli.

However, additional supply problems arose with semiconductor materials caused by earthquake and fire in Japan. With the effect of this development, it has been decided to suspend production at our Gölcük Plant between 19 April and 13 June, by bringing forward our annual planned summer shutdown. During this period maintenance will be carried out and our production lines will be rearranged in preparation for new investments. Production continues in our Yeniköy and Eskişehir plants.

The effects of production loss caused by the suspension of production is reduced by the increase in production pace in the following months, therefore, our total production guidance for the year 2021, is expected to remain within the previously announced range.

COVID-19 effect of the need to continue with the world as well as in how much time in Turkey, can not be estimated yet clear is how much can be spread; As the severity and duration of the effects become clearer, it will be possible to make a more clear and healthy assessment for the medium and long term. However, while preparing the financial statements dated 30 June 2021, the possible effects of the COVID-19 outbreak were evaluated and the estimates and assumptions used in the preparation of the financial statements were reviewed. In this context, the Company has tested possible impairments in the financial assets, stocks, tangible assets in the financial statements dated 30 June 2021 and no impairment has been identified.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Accounting policies, changes in accounting estimates and errors

As disclosed in Material Event Disclosure dated 22 February 2021, as a result of the internal control investigation carried out in our company; the Receivables Team Leader and the employee who follows dealer receivables, have been determined to have made irregularities on dealer current accounts and the dealer limits in the Direct Debit System, reporting dealer receivables and risks different than they are and as a result committed an act of misconduct. In this respect a criminal complaint has been filed against these persons with the charges of misappropriation, their employment contracts have been terminated immediately and also a lawsuit has been filed for compensating TRY247,800 - due to receivables risk identified as of date of disclosure – while reserving the right to claim further damages. It was publicly shared that the investigation related to this case was ongoing.

In the notes of the financial report dated 31 March 2021, which was released to the public at 30 April 2021, it was stated that the internal audit work continues on the subject, detailed investigations have been initiated within the framework of the fraud audit contract signed with an independent institution, legal processes are followed, and negotiations are held with dealers to recognize and pay their debts.

The work of our company's internal audit team and the work on the fraud audit services we received from an independent institution specialized in this field have been completed. The related work has confirmed the total of trade receivables from domestic dealers within the trade receivable balances included in the financial statements Company announced to the public at the end of 2020. Although total domestic trade receivable balances have been confirmed, it has been determined that trade receivables from certain dealers are erroneous and creates a risk of collection of receivables. In addition, no suspicious invoices were detected either to Ford Otosan or by Ford Otosan in the study. Necessary additional measures have been taken by the company management to prevent a similar incident from recurring. As a result of the internal audit and the independent institution's fraud audit studies, it has been confirmed that Company do not have a risk of collection of receivables beyond what is stated in our financial report footnotes dated March 31, 2021, which was announced to the public on April 30, 2021. Based on the information Company have and its best estimates as of this reporting date, Company risk of collection of receivables regarding the case of fraud has been evaluated with a prudent approach, and a provision for doubtful receivables of 323,000 TRY has been made.

As a result of the actions taken and the evaluations made after the detection of the misconduct, the relevant provision has been evaluated as a prior period error in accordance with TAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

In this context, the related doubtful receivable provision amounting to TRY323,000 has been adjusted retrospectively with the deferred tax effect of TRY64,600 (net TRY258,400) without being associated with the current period results.

Determination of the effects of the aforementioned error on the comparative information presented in the prior years and periods requires making assumptions about the payment power of counterparties in the relevant periods, as well as the receivables, collateral and receivable risk information in the relevant periods, and how the evaluations of the company management in the relevant periods would be.

Within the framework of the information we have at the current stage, it has not been possible to make this determination reliably for the past periods.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

The Company has corrected the aforementioned adjustments within the retained earnings for the earliest period for which retrospective restatement is practicable which is 1 January 2021 in accordance with the "Limitations on Retrospective Restatement" referred to in TAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Comparative information has not been restated in that respect. The effects of the aforementioned adjustments on the statement of financial position as of 30 June 2021 are presented below, and this correction does not have an effect on the statement of profit or loss and statements of cash flow.

The reconciliation of provision for doubtful receivables and opening balance as of 1 January 2021 is as follows:

	1 January 2021
Provision for doubtful receivables (previously reported)	(4,533)
Correction in retained earnings	(323,000)
Provision for doubtful receivables (restated)	(327,533)

The reconciliation of deferred tax assets and opening balance as of 1 January 2021 is as follows:

	1 January 2021
Deferred tax assets (previously reported)	954,246
Correction in retained earnings	64,600
Deferred tax assets (restated)	1,018,846

The effects of these corrections on the Company's retained earnings as of 1 January 2021 are as follows:

	1 January 2021
Retained earnings - (previously reported)	3,467,929
Trade receivables	(323,000)
Deferred tax effect	64,600
Retained earnings - (restated)	3,209,529

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 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 under 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 2019 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).

The company capitalizes ongoing development expenditures and evaluates whether there is an annual depreciation of these capitalized assets. As of 30 June 2021 and 31 December 2020, there is no impairment of capitalized development expenses (Note 11).

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

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 0.58% (31 December 2020: 2.34%) and the weighted average interest rate for the TRY time deposits is 19.22% (31 December 2020: 17.68%).

	30 June 2021	31 December 2020
Banks - TRY time deposits	3,228,097	7,401,123
Banks - foreign currency time deposits	1,753,165	521,769
Banks - TRY demand deposits	16,552	147,795
Banks - foreign currency demand deposits	10,675	2,942
Cash and cash equivalents in the cash flow statement	5,008,489	8,073,629
Interest income accrual	25,101	50,444
	5,033,590	8,124,073

5. FINANCIAL ASSETS

	<u>30 June 2021</u>		<u>31 December 2020</u>	
	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	39,087	0.59	44,767
		39,087		44,767

(*) The Company’s shareholding in Otokar was stated at market value at 30 June 2021 and 31 December 2020 which is assumed to approximate its fair value.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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6. FINANCIAL LIABILITIES

Short-term financial liabilities

Bank borrowings

	<u>30 June 2021</u>		<u>31 December 2020</u>	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
- EUR	0.68	2,509,673	0.78	1,092,965
- TRY	-	26,042	8.34	1,147,984
		2,535,715		2,240,949

Short-term portion of long-term financial liabilities

Bank borrowings

- EUR	1.63	2,553,783	1.82	1,660,704
		2,553,783		1,660,704

Lease liabilities

- EUR	4.77	24,852	4.68	20,158
- TRY	24.00	16,046	23.71	11,070
		40,898		31,228
		2,594,681		1,691,932
Total short-term financial liabilities		5,130,396		3,932,881

Long-term financial liabilities

Bank borrowings

	<u>30 June 2021</u>		<u>31 December 2020</u>	
	Effective interest rate (%)	Amount	Effective interest rate (%)	Amount
- EUR	2.05	3,831,912	1.76	4,096,515
		3,831,912		4,096,515

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

6. FINANCIAL LIABILITIES (Continued)

Lease liabilities

	30 June 2021		31 December 2020	
	Effective interest rate (%)	Amount	Effective interest rate (%)	Amount
- EUR	5.00	22,866	4.80	29,732
- TRY	22.91	29,918	22.22	21,746
		52,784		51,478
Total long-term financial liabilities		3,884,696		4,147,993

The payment schedules of long-term bank borrowings as of 30 June 2021 and 31 December 2020 are as follows:

Payment period	30 June 2021	31 December 2020
2022	950,142	1,829,182
2023	1,484,146	1,115,096
2024	610,631	491,471
2025	410,363	336,818
2026	376,630	323,948
	3,831,912	4,096,515

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TRY3,004,095 (31 December 2020: TRY1,458,383) (Not 13).

The movement of financial liabilities as of 30 June 2021 and 2020 is as follows:

	2021	2020
1 January	8,080,874	6,208,046
Cash inflows from borrowing	4,512,004	5,074,428
Cash outflows from borrowing	(4,978,186)	(3,114,466)
Cash outflows related to debt payments arising from lease agreements	(26,707)	(26,308)
Unrealised foreign exchange differences	1,398,273	987,911
Change in accrual of interest	(2,756)	15,826
Changes in TFRS 16 - lease liabilities	31,590	23,887
30 June	9,015,092	9,169,324

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

7. TRADE RECEIVABLES AND PAYABLES

	30 June 2021	31 December 2020
Short - term trade receivables		
Trade receivables	1,513,492	2,578,872
Doubtful receivables	327,533	4,533
Less: unearned credit finance income	(26,112)	(32,629)
	1,814,913	2,550,776
Less: provision for doubtful receivables (*)	(327,533)	(4,533)
	1,487,380	2,546,243

(*) Note 2.5 Accounting policies are explained in Accounting policies, changes in accounting estimates and errors.

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2020: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2020: 70 days) and discounted by 1.83% monthly effective interest rate (31 December 2020: 1.49%).

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

	30 June 2021	31 December 2020
Long - term trade receivables		
Deposits and guarantees given	4,521	3,950
	4,521	3,950

	30 June 2021	31 December 2020
Trade payables		
Trade payables	4,088,440	6,624,233
Less: unearned credit finance expense	(49,517)	(54,779)
	4,038,923	6,569,454

The average turnover of trade payables is 60 days (31 December 2020: 60 days) and discounted by 1.66% monthly effective interest rate (31 December 2020: 1.49%).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

The maximum exposure of the Company to credit risk as of 30 June 2021 and 31 December 2020 is as follows:

30 June 2021	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)	4,130,583	1,487,380	-	6,477	5,008,489
- The maximum of credit risk covered by guarantees	234,591	1,447,446	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	3,866,707	1,473,341	-	6,477	5,008,489
Net book value of financial assets that are overdue but not impaired	263,876	14,039	-	-	-
- Amount of risk covered by guarantees	-	7,834	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	327,533	-	-	-
- Provision for impairment (-)	-	(327,533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY – 30 JUNE 2021**

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2020	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)	3,207,939	2,546,243	-	1,457	8,073,629
- The maximum of credit risk covered by guarantees	235,000	2,544,397	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	3,170,095	2,537,594	-	1,457	8,073,629
Net book value of financial assets that are overdue but not impaired	37,844	8,649	-	-	-
- Amount of risk covered by guarantees	-	6,803	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533	-	-	-
- Provision for impairment (-)	-	(4,533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

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

30 June 2021	Trade receivables	
	Related party	Other
1 - 30 days overdue	58,636	8,802
1 - 3 months overdue	184,941	805
3 - 12 months overdue	20,177	3,580
1 - 5 years overdue	122	852
	263,876	14,039
Risk covered by guarantees	-	7,834

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 2020	Trade receivables	
	Related party	Other
1 - 30 days overdue	36,091	3,371
1 - 3 months overdue	1,571	2,835
3 - 12 months overdue	182	2,229
1 - 5 years overdue	-	214
	37,844	8,649
Risk covered by guarantees	-	6,803

8. OTHER RECEIVABLES AND PAYABLES

	30 June 2021	31 December 2020
Other receivables		
Other miscellaneous receivables	6,477	1,457
	6,477	1,457

	30 June 2021	31 December 2020
Other payables		
Sales premium accruals	49,379	42,468
Provisions for donations	35,420	-
Taxes and funds payable	32,439	84,469
Marketing expense and other expense accruals	15,708	-
Other	12,268	14,909
	145,214	141,846

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

9. INVENTORIES

	30 June 2021	31 December 2020
Raw materials	2,231,140	962,381
Finished goods	1,072,241	530,107
Goods in transit	711,685	364,172
Vehicle spare parts	355,148	277,493
Import vehicles	124,546	255,241
Spare parts	78,577	57,270
Other	59,605	20,452
	4,632,942	2,467,116
Less: provision for impairment of finished goods and vehicle spare parts	(9,160)	(18,073)
	4,623,782	2,449,043

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:

	2021	2020
1 January	18,073	16,665
Change within the period	(8,913)	3,911
30 June	9,160	20,576

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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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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10. PROPERTY, PLANT AND EQUIPMENT

1 January 2021	Land	Land improvements	Buildings	Machine and equipment	Models and moulds	Fixture and furniture	Vehicles (*)	Constructions in progress	Total
Cost	94,929	208,154	1,035,421	3,420,759	3,882,471	543,000	46,990	138,298	9,370,022
Accumulated depreciation	-	(96,865)	(493,050)	(1,748,880)	(2,272,833)	(345,670)	(9,351)	-	(4,966,649)
Net book value	94,929	111,289	542,371	1,671,879	1,609,638	197,330	37,639	138,298	4,403,373
For the period ended 30 June 2021									
Opening net book value	94,929	111,289	542,371	1,671,879	1,609,638	197,330	37,639	138,298	4,403,373
Additions	-	6,411	6,690	197,751	58,968	36,475	6,879	127,626	440,800
Transfers	-	-	618	6,048	1,802	15	-	(8,483)	-
Disposals	-	-	-	(6,790)	(59)	(1,035)	(10,442)	-	(18,326)
Depreciation charge	-	(3,213)	(15,670)	(93,785)	(260,611)	(19,142)	(3,067)	-	(395,488)
Disposals from accumulated depreciation	-	-	-	4,889	59	443	2,491	-	7,882
Closing net book value	94,929	114,487	534,009	1,779,992	1,409,797	214,086	33,500	257,441	4,438,241
30 June 2021									
Cost	94,929	214,565	1,042,729	3,617,768	3,943,182	578,455	43,427	257,441	9,792,496
Accumulated depreciation	-	(100,078)	(508,720)	(1,837,776)	(2,533,385)	(364,369)	(9,927)	-	(5,354,255)
Net book value	94,929	114,487	534,009	1,779,992	1,409,797	214,086	33,500	257,441	4,438,241

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 30 June 2021 (31 December 2020: None)

There is no collateral, pledge or mortgage on tangible assets as of 30 June 2021 and 31 December 2020.

(*) 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 TRY23,031 (31 December 2020: TRY24,242).

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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

1 January 2020	Land	Land improvements	Buildings	Machine and equipment	Models and moulds	Fixture and furniture	Vehicles (*)	Constructions in progress	Total
Cost	12,269	197,442	1,016,609	3,208,085	3,550,828	495,853	89,643	129,687	8,700,416
Accumulated depreciation	-	(90,040)	(462,296)	(1,574,195)	(1,808,122)	(313,714)	(15,501)	-	(4,263,868)
Net book value	12,269	107,402	554,313	1,633,890	1,742,706	182,139	74,142	129,687	4,436,548
For the period ended 30 June 2020									
Opening net book value	12,269	107,402	554,313	1,633,890	1,742,706	182,139	74,142	129,687	4,436,548
Additions	-	1,951	2,082	65,951	139,082	23,272	6,086	30,344	268,768
Transfers	-	1,326	340	15,708	41,043	755	-	(59,172)	-
Disposals	-	-	-	(675)	-	(2,494)	(2,450)	-	(5,619)
Depreciation charge	-	(3,419)	(15,483)	(89,132)	(221,443)	(17,400)	(2,960)	-	(349,837)
Disposals from accumulated depreciation	-	-	-	316	-	2,370	479	-	3,165
Closing net book value	12,269	107,260	541,252	1,626,058	1,701,388	188,642	75,297	100,859	4,353,025
30 June 2020									
Cost	12,269	200,719	1,019,031	3,289,069	3,730,953	517,386	93,279	100,859	8,963,565
Accumulated depreciation	-	(93,459)	(477,779)	(1,663,011)	(2,029,565)	(328,744)	(17,982)	-	(4,610,540)
Net book value	12,269	107,260	541,252	1,626,058	1,701,388	188,642	75,297	100,859	4,353,025

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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The allocation of depreciation expense as of 30 June 2021 and 2020 is as follows:

	30 June 2021	30 June 2020
Cost of production (Note 18)	374,254	331,222
Research and development expenses (Note 19)	9,933	9,441
General administrative expenses (Note 19)	8,054	6,528
Marketing expenses (Note 19)	1,643	1,639
Associated with construction in progress	1,604	1,007
	395,488	349,837

11. INTANGIBLE ASSETS

1 January 2021	Rights	Development cost	Development cost in progress	Other	Total
Cost	121,228	1,136,844	383,265	7,284	1,648,621
Accumulated amortisation	(91,430)	(645,331)	-	(7,021)	(743,782)
Net book value	29,798	491,513	383,265	263	904,839
For the period ended 30 June 2020					
Opening net book value	29,798	491,513	383,265	263	904,839
Additions	5,618	233,890	-	-	239,508
Transfers	-	252,569	(252,569)	-	-
Disposals	(339)	-	-	-	(339)
Depreciation charge	(11,155)	(85,106)	-	(82)	(96,343)
Disposals from accumulated depreciation	38	-	-	-	38
Closing net book value	23,960	892,866	130,696	181	1,047,703
30 June 2021					
Cost	126,507	1,623,303	130,696	7,284	1,887,790
Accumulated amortisation	(102,547)	(730,437)	-	(7,103)	(840,087)
Net book value	23,960	892,866	130,696	181	1,047,703

There are no fully depreciated intangible assets as of 30 June 2021. As of 31 December 2020, there is no capitalized interest cost and foreign exchange difference in accordance with TAS 23 (31 December 2020: None).

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11. INTANGIBLE ASSETS (Continued)

1 January 2020	Rights	Development cost	Development cost in progress	Other	Total
Cost	96,192	1,041,359	281,830	7,903	1,427,284
Accumulated amortisation	(72,035)	(517,310)	-	(6,743)	(596,088)
Net book value	24,157	524,049	281,830	1,160	831,196
For the period ended 30 June 2020					
Opening net book value	24,157	524,049	281,830	1,160	831,196
Additions	4,845	93,135	-	-	97,980
Transfers	-	45,541	(45,541)	-	0
Amortisation charge	(9,557)	(61,655)	-	(144)	(71,356)
Closing net book value	19,445	601,070	236,289	1,016	857,820
30 June 2020					
Cost	101,037	1,180,035	236,289	7,903	1,525,264
Accumulated amortisation	(81,592)	(578,965)	-	(6,887)	(667,444)
Net book value	19,445	601,070	236,289	1,016	857,820

The allocation of amortisation charges of intangible assets relating to 30 June 2021 and 2020 is as follows:

	30 June 2021	30 June 2020
Cost of production (Note 18)	86,270	63,175
General administrative expenses (Note 19)	7,929	6,613
Research and development expenses (Note 19)	1,740	1,084
Marketing expenses (Note 19)	374	454
Associated with construction in progress	30	30
	96,343	71,356

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12. PREPAID EXPENSES

Short-term prepaid expenses	30 June 2021	31 December 2020
Advances given for inventories	369,534	188,570
Other prepaid expenses	26,541	33,302
	396,075	221,872
Long-term prepaid expenses	30 June 2021	31 December 2020
Advances given for investments (*)	668,423	336,244
Other prepaid expenses	19,944	23,485
	688,367	359,729

(*) Advances given for investments are related to the Company’s new vehicle investments. TRY168,107 (31 December 2020: TRY148,384) is given to domestic vendors as mould advances and TRY500,316 (31 December 2020: TRY187,860) is the advance given for the new project investments.

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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

	30 June 2021	31 December 2020
Warranty expense provision	174,290	164,132
Provisions for sales premium (*)	45,365	109,113
	219,655	273,245

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

Long- term provisions

	30 June 2021	31 December 2020
Warranty expense provision	224,835	190,084
Provisions for lawsuits	87,397	83,369
	312,232	273,453

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

	2021	2020
1 January	83,369	53,838
Paid during the period	(11,462)	(2,370)
Additions during the period	15,490	8,372
30 June	87,397	59,840

A movement in the warranty expense provision during the period is as follows:

	2021	2020
1 January	354,216	209,168
Paid during the period	(113,518)	(78,001)
Additions during the period (Note 19)	158,427	78,450
30 June	399,125	209,617

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13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

Letters of guarantee and letters of credit	30 June 2021	31 December 2020
Letters of guarantee given to financial institutions due to bank loans	3,004,095	1,458,383
Letters of guarantee given to customs	108,236	94,670
Letters of guarantees given to other parties	85,823	51,539
	3,198,154	1,604,592

Letters of guarantee given	30 June 2021		31 December 2020	
	Original currency	TRY amount	Original currency	TRY amount
EUR	300,008	3,109,434	171,957	1,548,967
TRY	88,720	88,720	55,625	55,625
		3,198,154		1,604,592

The allocation of collaterals, pledges and mortgages as of 30 June 2021 and 31 December 2020 as follows:

Collaterals, pledges and mortgages given by the Company	30 June 2021	31 December 2020
A. Total amount of collaterals/pledges/mortgages given for its own legal entity	3,195,208	1,602,947
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	2,946	1,645
D. Total amount of other collaterals/pledges/mortgages given		
i. Total amount of collaterals/pledges/mortgages	-	-
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	-	-
	3,198,154	1,604,592

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13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

As of 30 June 2021 and 31 December 2020, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

Letters of guarantee taken

	30 June 2021		31 December 2020	
	Original currency	TRY amount	Original currency	TRY amount
TRY	566,605	566,605	302,071	302,071
EUR	33,209	344,194	22,471	202,417
USD	49	423	22	162
		911,222		504,650

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 30 June 2021 and 31 December 2020.

14. COMMITMENTS

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

- a) The Company has signed a 1-year loan commitment agreement with İşbank amounting to EUR 100,000,000 in 2021. With this agreement the company committed to pass the export value of EUR 200,000,000 through its accounts.
- b) The Company also committed to Türkiye İhracat Kredi Bankası A.Ş. (Eximbank):
 - With 2 years term credit amounting to Euro 44,000,000 used in December 2019 an export amount of Euro 44,000,000.
 - With 2 years term credit amounting to Euro 40,000,000 used in April 2020 an export amount of Euro 40,000,000.
 - With 2 years term credit amounting to Euro 23,000,000 used in May 2020 an export amount of Euro 23,000,000
 - With 8 months term credit amounting to Euro 20,000,000 used in February 2021 an export amount of Euro 20,000,000.
 - With 2 years term credit amounting to Euro 50,000,000 used in February 2021 an export amount of Euro 50,000,000.
 - With 4 months term credit amounting to Euro 30,000,000 used in March 2021 an export amount of Euro 30,000,000.
 - With 4 months term credit amounting to Euro 30,000,000 used in April 2021 an export amount of Euro 30,000,000.
 - With 4 months term credit amounting to Euro 5,000,000 used in May 2021 an export amount of Euro 5,000,000.
 - With 4 months term credit amounting to Euro 65,000,000 used in June 2021 an export amount of Euro 65,000,000.

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15. EMPLOYEE BENEFITS

Liabilities for employee benefit obligations

	30 June 2021	31 December 2020
Salaries and social charges payable	134,460	119,836
Social security premiums payable	41,777	90,248
Withholding income tax payable	23,010	72,850
Other	7,964	7,143
	207,211	290,077

Long-term provision for employee benefits

	30 June 2021	31 December 2020
Provision for employment termination benefits	351,490	312,721
Provision for unused vacation pay liability	75,107	48,337
	426,597	361,058

Provision for employee 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 TRY8,284.51 for each year of service as of 1 July 2021 (31 December 2020: Full TRY7,638.96).

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.

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15. EMPLOYEE BENEFITS (Continued)

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:

	30 June 2021	31 December 2020
Net discount rate (%)	4.63	4.63
Turnover rate to estimate the probability of retirement (%)	95.61	95.73

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 TRY8,284.51 which was effective as of 1 July 2021 (31 December 2020: Full TRY7,638.96) has been used in the calculations.

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

	2021	2020
1 January	312,721	256,208
Interest cost	20,327	15,372
Current year service cost	11,787	9,934
Paid during the period	(9,862)	(7,251)
Actuarial gains	16,517	3,380
30 June	351,490	277,643

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of 30 June 2021 is below:

Sensitivity level	Net discount rate		Turnover rate related to the probability of retirement	
	0.5(%) base decrease	0.5(%) base increase	0.5 (%)base decrease	0.5(%) base increase
Rate (%)	(4,1)	(5,1)	95,1	96,1
Change in provision for employee benefits	23,339	(21,366)	(7,204)	7,559

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16. OTHER CURRENT ASSETS

	30 June 2021	31 December 2020
VAT to be deducted (*)	466,185	985,386
Prepaid taxes and withholding	29,204	46,483
Other	2,784	22,026
	498,173	1,053,895

(*) VAT to be deducted includes export VAT receivables related to May and June 2021. VAT return for May amounting to TRY127,646 has been collected in July 2021.

17. EQUITY

The composition of the Company’s paid-in capital as of 30 June 2021 and 31 December 2020 is as follows:

Shareholders	Share group	30 June 2021	Shareholders percentage (%)	31 December 2020	Shareholders percentage (%)
Koç Holding A.Ş.	B	135,631	38.65	135,631	38.65
Temel Ticaret ve Yatırım A.Ş.	B	2,356	0.67	2,356	0.67
Ford Deutschland Holding GmbH	C	143,997	41.04	143,997	41.04
Vehbi Koç Vakfi	A	2,881	0.82	2,881	0.82
Koç Holding Emekli ve Yardım Sandığı Vakfi	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	

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 2020: 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 TRY634,023 as of 30 June 2021 (31 December 2020: TRY410,493).

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17. EQUITY (Continued)

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 13 June, 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 1 February, 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.

In accordance with the Ordinary General Assembly Meeting dated as of 17 March 2021, the Company has decided to distribute dividends at the rate of 642% gross (net 545.70%), with a total amount of TRY2,252,842 as full TRY6.42 gross (Kr 545.70 net) for each share with a value of full TRY1 and the Company made the dividend payment in March 2021. (In March 2020 full TRY3.12 of the gross TRY1 share (net Kr 265.20) will be 312% rate TRY1,094,839 cash dividend was distributed).

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17. EQUITY (Continued)

In accordance with Communiqué No: II-14.1 “Communiqué on the Principles of Financial Reporting in Capital Markets”, equity schedule at 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021	31 December 2020
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	36,204	41,600
Losses on cash flow hedge	(1,788,386)	(1,431,512)
Losses on remeasurements of defined benefit plans	(31,573)	(18,359)
Restricted reserves	634,023	410,493
- Legal reserves	634,023	410,493
Retained earnings (*)	4,928,070	3,467,929
- Inflation adjustment to equity	428,301	428,301
- Extraordinary reserves	4,499,769	3,039,628
Net income for the period	2,818,577	4,194,913
Total equity	6,975,753	7,043,902

(*) Note 2.5 Accounting policies are explained in Accounting policies, changes in accounting estimates and errors.

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended 30 June 2021 and 31 December 2020 are as follows:

		Adjusted values	Equity inflation adjustment differences
30 June 2021	Historical values		
Issued capital	350,910	378,830	27,920
Legal reserves	634,023	692,776	58,753
Extraordinary reserves	4,499,769	4,868,914	369,145
Share premium	8	361	353
Other reserves	-	50	50
	5,484,710	5,940,931	456,221
31 December 2020	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910	378,830	27,920
Legal reserves	410,493	469,246	58,753
Extraordinary reserves	3,039,628	3,408,773	369,145
Share premium	8	361	353
Other reserves	-	50	50
	3,801,039	4,257,260	456,221

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17. EQUITY (Continued)

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 30 June 2021 and 31 December 2020. As of 30 June 2021, fair value change amounting to TRY(5,396) net of deferred tax, (31 December 2020: TRY21,291) 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:

	2021	2020
1 January	(1,408,271)	(687,178)
Gains/(losses) from financial assets measured at fair value through other comprehensive income	(5,396)	(1,236)
Actuarial gains/(losses)	(13,214)	(2,704)
Gains/(losses) on cash flow hedges	(356,874)	(325,746)
30 June	(1,783,755)	(1,016,864)

18. REVENUE AND COST OF SALES

	1 January - 30 June 2021	1 April - 30 June 2021	1 January - 30 June 2020	1 April - 30 June 2020
Export sales	19,890,920	7,354,314	11,538,648	4,034,283
Domestic sales	7,542,159	3,435,961	3,921,765	1,874,123
Other sales	147,688	60,200	72,252	28,428
Less: discounts	(794,023)	(317,873)	(438,750)	(209,528)
	26,786,744	10,532,602	15,093,915	5,727,306

Units of vehicle sales

	1 January- 30 June 2021			1 April- 30 June 2021		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	1,644	70,077	71,721	692	19,661	20,353
Transit	8,060	42,802	50,862	2,654	14,238	16,892
Transit Courier	17,286	11,886	29,172	8,523	6,225	14,748
Passenger vehicles	6,283	16	6,299	2,360	-	2,360
Ford Trucks (Trucks)	3,166	1,820	4,986	1,319	960	2,279
Ranger	797	2	799	699	-	699
Transit Connect	307	-	307	126	-	126
	37,543	126,603	164,146	16,373	41,084	57,457

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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18. REVENUE AND COST OF SALES (Continued)

	1 January- 30 June 2020			1 April- 30 June 2020		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	1,932	51,898	53,830	774	14,442	15,216
Transit	7,684	33,342	41,026	3,034	11,827	14,861
Transit Courier	8,720	10,323	19,043	3,946	3,148	7,094
Passenger vehicles	5,997	3	6,000	2,459	2	2,461
Ford Trucks (Trucks)	1,401	886	2,287	792	493	1,285
Ranger	484	-	484	389	-	389
Transit Connect	201	-	201	57	-	57
	26,419	96,452	122,871	11,451	29,912	41,363

Summaries of cost of production as of 30 June 2021 and 31 December 2020 are as follows

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Cost of raw material	(19,507,770)	(7,171,921)	(10,756,692)	(3,642,271)
Production overhead costs	(1,380,872)	(690,571)	(915,528)	(446,809)
Amortization expenses (Notes 10, 11 and 33)	(472,678)	(237,706)	(409,669)	(207,687)
Changes in finished goods	551,089	238,483	268,817	(81,167)
Total production cost	(20,810,231)	(7,861,715)	(11,813,072)	(4,377,934)
Cost of trade goods sold	(2,391,232)	(1,153,679)	(1,530,474)	(670,520)
Total cost of sales	(23,201,463)	(9,015,394)	(13,343,546)	(5,048,454)

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

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Research and development expenses				
Personnel expenses	(148,889)	(72,064)	(111,323)	(48,754)
Project costs	(58,923)	(41,313)	(33,882)	(13,128)
Mechanization expenses	(42,664)	(23,475)	(34,656)	(14,176)
Depreciation and amortization expenses (Notes 10, 11 and 32)	(12,569)	(6,570)	(11,582)	(5,851)
Other	(11,271)	(1,375)	(12,742)	(1,147)
	(274,316)	(144,797)	(204,185)	(83,056)

FORD OTOMOTİV SANAYİ A.Ş.

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

19. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (Continued)

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Marketing expenses				
Warranty expenses (Note 13)	(158,427)	(91,838)	(78,450)	(34,999)
Personnel expenses	(81,862)	(39,968)	(66,476)	(30,282)
Advertising expenses	(47,156)	(27,405)	(26,399)	(14,596)
Vehicle transportation expenses	(36,663)	(15,841)	(22,009)	(8,710)
Spare parts transportation and packaging expenses	(19,076)	(12,164)	(13,223)	(5,563)
Export expenses	(16,012)	(6,194)	(11,090)	(3,235)
Depreciation and amortization expenses (Notes 10, 11 and 32)	(5,910)	(3,296)	(7,157)	(3,577)
Dealer and service development expenses	(831)	(331)	(2,187)	(1,215)
Other	(75,722)	(35,398)	(48,234)	(13,666)
	(441,659)	(232,435)	(275,225)	(115,843)
General administrative expenses				
Personnel expenses	(130,716)	(66,019)	(88,997)	(41,120)
Grants and donations	(46,923)	(17,937)	(11,305)	(176)
Legal, consulting and auditing expenses	(33,874)	(12,408)	(20,820)	(6,424)
Depreciation and amortization expenses (Notes 10, 11 and 32)	(17,135)	(9,002)	(14,154)	(7,268)
Organization expenses	(4,702)	(2,386)	(4,114)	(2,032)
Transportation and travel expenses	(8,344)	(3,491)	(4,002)	(962)
New project administrative expenses	(5,786)	(4,540)	(2,153)	(1,072)
Repair, maintenance and energy expenses	(5,214)	(2,718)	(4,051)	(2,050)
Duties, taxes and levies expenses	(3,709)	(598)	(2,611)	(1,806)
Other	(52,857)	(20,114)	(35,900)	(11,465)
	(309,260)	(139,213)	(188,107)	(74,375)

20. EXPENSES BY NATURE

The classification of expenses by nature for the periods ended at 30 June 2021 and 31 December 2020 is as follows:

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Raw material cost	(19,507,770)	(7,171,921)	(10,756,692)	(3,642,271)
Cost of trade goods sold	(2,391,232)	(1,153,679)	(1,530,474)	(670,520)
Financial expenses	(1,290,127)	(613,612)	(809,429)	(425,687)
Personnel expenses	(1,061,007)	(501,354)	(726,812)	(314,427)
Other overhead costs	(681,332)	(367,270)	(455,508)	(252,534)
Other operational expenses	(628,155)	(319,525)	(367,832)	(136,426)
Depreciation and amortization expenses	(508,292)	(256,574)	(442,562)	(224,383)
Other expenses from operating activities	(359,602)	(139,715)	(151,408)	(50,732)
Expenses from investing activities	(1,466)	(1,466)	(728)	(442)
Changes in inventories	551,090	238,484	268,817	(81,167)
Total expenses	(25,877,893)	(10,286,632)	(14,972,628)	(5,798,589)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

21. OTHER OPERATING INCOME/EXPENSES

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Other operating income				
Foreign exchange gains related to trade receivables and payables	369,255	109,339	226,021	73,056
Unearned financial income	184,815	89,749	63,510	26,821
License income	10,188	5,467	9,765	6,860
Commission income	7,426	2,843	1,490	842
Rent income	6,187	2,824	4,386	2,199
Price difference and claim recovery	2,927	315	1,389	729
Other	20,998	9,999	26,513	5,509
	601,796	220,536	333,074	116,016
	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Other operating expenses				
Unearned financial expense	(303,064)	(125,980)	(110,352)	(30,482)
Foreign exchange losses related to trade receivables and payables	(53,579)	(12,399)	(34,464)	(19,314)
Other	(2,959)	(1,336)	(6,592)	(936)
	(359,602)	(139,715)	(151,408)	(50,732)

22. FINANCIAL INCOME

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Foreign exchange gains	765,249	295,347	338,022	190,847
Interest income	514,165	213,493	98,237	44,363
	1,279,414	508,840	436,259	235,210

23. FINANCIAL EXPENSES

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Foreign exchange losses	(1,169,668)	(557,382)	(715,328)	(364,639)
Interest expenses	(110,898)	(51,110)	(80,232)	(52,003)
Other	(9,561)	(5,120)	(13,869)	(9,045)
	(1,290,127)	(613,612)	(809,429)	(425,687)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

24. TAX ASSETS AND LIABILITIES

Corporate Tax Law was amended by the Law No, 5520 dated 13 June 2006. Law No, 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from 1 January, 2006. Accordingly, the corporate tax rate for the fiscal year 30 June 2021 is 25% (31 December 2020: 22%). Corporate tax is payable 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.

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 30 June 2021, the Company utilised R&D incentive exemption amounting of TRY315,335 (31 December 2020: TRY197,027) in return for the legal tax.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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24. TAX ASSETS AND LIABILITIES (Continued)

The Company realizes fixed asset investments with incentives within the scope of 2009 Decisions of the Council of Ministers on State Aid in Investments 2009 numbered 2009/15199 and 2012/3305, which regulates the investment legislation.

The investment projects in which the Company has completed its investment processes and continued to benefit from the contribution amounts to the investment deserved are as follows;

- An investment of TRY559,295 has been made between 2010 and 2013 for the Transit and Transit Custom model investments at Kocaeli Gölcük Plant. The investment contribution rate of this project is 30%.
- An investment of TRY1,300,573 has been made between 2013 and 2017 at Kocaeli Gölcük Plant for Transit expenditures. The investment contribution rate of this project is 50%.
- For the new model Transit Courier investment, which started production with the establishment of the Kocaeli Yeniköy Plant, an investment expenditure of TRY798,311 was made between 2013-2016. The contribution rate of the project is 40%.
- Eskişehir Plant has two incentive certificates related to engine and truck production. The Company received an investment incentive certificate for the new 6 and 4-cylinder Engine Production project to be used in Trucks and Transit vehicles worth of TRY138,960 in Eskişehir in 2013-2019, and a second Investment Incentive Certificate for the Euro 6 Emission Truck Production project amounting to TRY529,645 in 2014-2019. The investment contribution rate of these projects is 40%. Investment periods for the incentives of Eskişehir Factories have been completed and incentive closure process is continuing with the Ministry of Industry.

The Company’s project which has ongoing investment process and continues to benefit from the investment contribution is as follows;

- In 2016, an investment incentive certificate amounting to TRY849,160 was obtained for the renovation and factory modernization investments of the Transit, Transit Courier and Transit Custom models at the Gölcük and Yeniköy plants. Investment expenditures are continuing within the scope of this project and the contribution rate of the project to investment is 40%.
- Renewal investments of machinery and equipment used for the manufacturing and assembly of F-Trucks (trucks, tractors), Transit and Transit Custom vehicles manufactured in Eskişehir Factories, Brake Disc and Front Layout that will be started to be produced for use in Transit vehicles. An investment incentive certificate amounting to TRY889,308 was obtained on 30 March 2020 for machinery and equipment investments to be made locally to manufacture the gearbox of F-Trucks, which is a product in the heavy commercial vehicle segment, as well as line installation investments for its complex manufacturing. The contribution rate of this project to investment is 40%.
- Project-based Incentives amounting to TRY 20,501,206 for product diversification and expansion investments covering the production of new generation commercial vehicles and batteries in Kocaeli Plants were published in the Official Gazette with the President's Decree No. 3273 dated 4 December 2020. The rate of contribution to the investment to be utilized for this project is 100%.

With the decision of the Council of Ministers, 15 points were added to the investment contribution rates for the investments to be realized in 2017, and the 15 points advantage that was added to the existing investment contributions was extended with the decisions of the Council of Ministers for the investments of 2018 and 2022.

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

24. TAX ASSETS AND LIABILITIES (Continued)

As of the date of the balance sheet, the investment expenditures amounting to TRY5,265,400 (30 June 2021: TRY4,628,022) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TRY477,982. (30 June 2021: TRY33,142) in the current year and this amount has been deducted from the total deferred tax asset.

The Company’s net tax position as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021	31 December 2020
Current year corporate tax expense	(25,929)	(39,799)
Prepaid tax and withholding	28,804	22,247
Current tax-related assets / (liabilities)	2,875	(17,552)

The taxation on income for the periods ended 30 June 2021 and 31 December 2020 are as follows:

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Current year corporate tax expense	(25,929)	(13,028)	(4,025)	632
Current year tax effect of cash flow hedge (*)	(102,128)	(29,530)	(80,275)	(35,145)
Deferred tax charged to statement of profit or loss	154,109	66,415	101,945	34,578
Deferred tax (expense)/income	51,981	36,885	21,670	(567)
Continuing operations tax (income)/(expense)	26,052	23,857	17,645	65

(*) 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.

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at 30 June 2021 and 31 December 2020 and current tax ratio based on income before tax is as follows:

	30 June 2021	31 December 2020
Income before tax	2,792,525	891,792
Effective tax rate	25%	22%
Current year tax expense	(698,131)	(196,194)
Research and development deductions	78,834	43,346
Investment incentive exemption	517,984	152,872
Other	127,365	17,621
	26,052	17,645

The Company calculates deferred income tax assets and liabilities by taking into account the effects of temporary differences arising from the different assessments between TFRS and statutory financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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24. TAX ASSETS AND LIABILITIES (Continued)

In accordance with the regulation numbered 7316, published in Official Gazette on 22 April 2021, "Law on the Amending the Procedure Law on Collection of Public Claims and Some Other Laws", in temporary declarations to be issued after 01.07,2021, the corporate tax rate has increased from 20% to 25% and to 23% for 2022. It will be applied as 20% from 2023.

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at 30 June 2021 and 31 December 2020 using the current enacted tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Deferred tax assets				
Investment incentive tax asset	(5,824,695)	(5,508,188)	1,160,006	1,120,004
Expense accruals and other provisions	(573,484)	(512,294)	135,822	102,453
Employee benefits provision	(351,490)	(312,721)	70,297	62,544
Warranty expense provision	(399,125)	(354,216)	89,812	70,843
Inventories	(91,356)	(68,338)	22,839	13,668
Provision for doubtful trade receivables	(323,000)	-	80,750	-
	(7,563,150)	(6,755,757)	1,559,526	1,369,512
Deferred tax liabilities				
Tangible and intangible assets	1,847,171	1,983,517	(369,434)	(396,703)
Income accruals and other	58,763	92,814	(13,550)	(18,563)
	1,905,934	2,076,331	(382,984)	(415,266)
Net deferred tax asset			1,176,542	954,246

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

24. TAX ASSETS AND LIABILITIES (Continued)

The deferred tax movement table is presented below:

	1 January 2021	Effect of fixes (*)	Charged to statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	30 June 2021
Deferred tax liabilities					
Tangible and intangible assets	(396,703)	-	27,269	-	(369,434)
Income accruals and other	(18,563)	-	4,729	284	(13,550)
Deferred tax assets					
Investment incentive tax asset	1,120,004	-	40,002	-	1,160,006
Expense accruals and other provisions	102,453	-	33,369	-	135,822
Provision for employee benefits	62,544	-	4,450	3,303	70,297
Warranty expense provision	70,843	-	18,969	-	89,812
Inventories	13,668	-	9,171	-	22,839
Doubtful receivables provisions	-	64,400	16,150	-	80,750
Deferred tax asset, net	954,246	64,400	154,109	3,587	1,176,542

(*) Note 2.5 Accounting policies are explained in Accounting policies, changes in accounting estimates and errors.

	1 January 2020	Charged to statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	31 December 2020
Deferred tax liabilities				
Tangible and intangible assets	(422,807)	(29,101)	-	(451,908)
Income accruals and other	(10,747)	9,869	65	(813)
Deferred tax assets				
Investment incentive tax asset	880,274	119,730	-	1,000,004
Expense accruals and other provisions	90,754	(468)	-	90,286
Provision for employee benefits	51,241	3,612	676	55,529
Warranty expense provision	43,599	480	-	44,079
Inventories	17,832	(2,177)	-	15,655
Deferred tax asset, net	650,146	101,945	741	752,832

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25. EARNINGS PER SHARE

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Net profit for the year (TRY)	2,818,577	999,203	909,437	280,008
Weighted average number of shares with nominal	35,091,000,000	35,091,000,000	35,091,000,000	35,091,000,000
Earnings per share with nominal value of Kr 1 each	8.03 Kr	2.85 Kr	2.59 Kr	0.80 Kr

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 Deutschland Holding GmbH, a subsidiary of 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 30 June 2021 and 31 December 2020 and the transactions with related parties during the year are as follows:

a) Receivables from related parties

i) Trade receivable from related parties

	30 June 2021	31 December 2020
Due from shareholders		
Ford Motor Company and its subsidiaries	3,475,907	1,938,318
	3,475,907	1,938,318
Due from group companies (*)		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	632,404	1,278,190
Other	30,129	7,721
	662,533	1,285,911
Less: unearned credit finance income	(7,857)	(16,290)
	4,130,583	3,207,939

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

26. RELATED PARTY DISCLOSURES (Continued)

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.

b) Payables to related parties

i) Trade payables to related parties

	30 June 2021	31 December 2020
Due to shareholders		
Ford Motor Company and its subsidiaries	2,036,718	900,762
	2,036,718	900,762
Due to group companies (*)		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	94,122	127,008
Ram Dış Ticaret A.Ş.	32,460	54,043
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	13,777	29,350
Ram Sigorta Aracılık Hizmetleri A.Ş.	9,301	1,143
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	4,399	7,325
Opet Petrolcülük A.Ş.	3,289	4,348
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	2,932	4,150
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	2,245	14,159
Ingage Dijital Pazarlama A.Ş.	875	17,552
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	477	1,021
Setur Servis Turistik A.Ş.	260	4,491
Ark İnşaat A.Ş.	-	11,205
Eltak Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A.Ş.	-	484
Other	2,751	3,815
	166,888	280,094
Less: unearned credit finance income	(3,270)	(2,517)
	2,200,336	1,178,339

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

26. RELATED PARTY DISCLOSURES (Continued)

ii) *Other payables to related parties*

	30 June 2021	31 December 2020
Koç Holding A.Ş.	5,511	18,685
Koç Finansman A.Ş.	-	8,864
Yapı ve Kredi Bankası A.Ş.	-	6,801
	5,511	34,350

c) *Sales to related parties*

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Ford Motor Company (*)	18,734,936	6,719,581	11,136,746	3,796,013
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	1,740,528	855,029	942,099	443,022
Other	1	-	68	56
	20,475,465	7,574,610	12,078,913	4,239,091
Less: financial income from credit sales	(47,669)	(30,489)	(17,180)	(7,110)
	20,427,796	7,544,121	12,061,733	4,231,981

(*) 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.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY – 30 JUNE 2021

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

26. RELATED PARTY DISCLOSURES (Continued)

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

	1 January - 30 June 2021			Total
	Material	Service	Fixed assets	
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	21,374	331,565	5	352,944
Ram Dış Ticaret A.Ş.	64,965	-	-	64,965
Ark İnşaat Sanayi ve Ticaret A.Ş.	-	-	61,586	61,586
Eltak Elektrik Enerjisi İth. İhr. ve Toptan Tic. A.Ş.	-	47,239	-	47,239
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	29,307	13,466	42,773
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	14,016	9,613	23,629
Opet Petrolcülük A.Ş.	16,364	-	-	16,364
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	15,000	-	15,000
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	14,945	-	-	14,945
Koçtaş Yapı Marketleri Ticaret A.Ş.	11,730	-	24	11,754
Ingage Dijital Pazarlama A.Ş.	-	11,480	-	11,480
Koç Holding A.Ş. (**)	-	11,280	-	11,280
Otokar Otomotiv Savunma San. A.Ş.	4,650	-	-	4,650
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	2,620	-	-	2,620
Setur Servis Turistik A.Ş.	-	2,127	-	2,127
Tanı Pazarlama İlet. Hiz. A.Ş.	-	542	-	542
Other	72	4,181	-	4,253
	136,720	466,737	84,694	688,151
Less: Financial expense from credit purchases	(6,129)	-	-	(6,129)
	130,591	466,737	84,694	682,022

(*) Contains paid and accrued premium amounts for the period ended 30 June 2021 and period ended 2020 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.

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

26. RELATED PARTY DISCLOSURES (Continued)

	1 April - 30 June 2021			Total
	Material	Service	Fixed assets	
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	12,919	176,441	-	189,360
Ark İnşaat Sanayi ve Ticaret A.Ş.	-	-	41,485	41,485
Eltek Elektrik Enerjisi İth. İhr. ve Toptan Tic. A.Ş.	-	26,416	-	26,416
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	8,368	9,202	17,570
Ingage Dijital Pazarlama A.Ş.	-	9,908	-	9,908
Koçtaş Yapı Marketleri Ticaret A.Ş.	8,781	-	-	8,781
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	7,266	-	7,266
Opet Petrolcülük A.Ş.	6,389	-	-	6,389
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	6,215	-	-	6,215
Koç Holding A.Ş. (**)	-	6,610	-	6,610
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	5,354	168	5,522
Ram Dış Ticaret A.Ş.	2,850	-	-	2,850
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,488	-	-	1,488
Setur Servis Turistik A.Ş.	-	976	-	976
Tanı Pazarlama İlet. Hiz. A.Ş.	-	327	-	327
Otokar Otomotiv Savunma San. A.Ş.	-	-	-	-
Other	32	2,397	-	2,429
	38,674	244,063	50,855	333,592
Less: Financial expense from credit purchases	(4,822)	-	-	(4,822)
	33,852	244,063	50,855	328,770

(*) Contains paid and accrued premium amounts for the period ended 30 June 2021 and period ended 2020 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.

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

26. RELATED PARTY DISCLOSURES (Continued)

	1 January - 30 June 2020			Total
	Material	Service	Fixed assets	
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	12,462	126,641	133	139,236
Eltek Elektrik Enerjisi İth. İhr. ve Toptan Tic. A.Ş.	-	35,582	-	35,582
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	18,220	11,385	29,605
Ram Dış Ticaret A.Ş.	17,581	-	-	17,581
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	12,534	-	12,534
Opet Petrolcülük A.Ş.	10,983	-	-	10,983
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	4,492	5,669	10,161
Koç Holding A.Ş. (**)	-	9,640	-	9,640
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	8,542	-	-	8,542
Koçtaş Yapı Marketleri Ticaret A.Ş.	5,893	-	21	5,914
Setur Servis Turistik A.Ş.	-	5,786	-	5,786
Ark İnşaat Sanayi ve Ticaret A.Ş.	5,351	-	-	5,351
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	2,734	-	-	2,734
Ingage Dijital Pazarlama A.Ş.	-	910	-	910
Tanı Pazarlama İlet. Hiz. A.Ş.	-	416	-	416
Otokar Otomotiv Savunma San. A.Ş.	187	-	-	187
Other	48	5,627	237	5,912
	63,781	219,848	17,445	301,074
Less: Financial expense from credit purchases	(1,306)	-	-	(1,306)
	62,475	219,848	17,445	299,768

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26. RELATED PARTY DISCLOSURES (Continued)

	1 April - 30 June 2020			Total
	Material	Service	Fixed assets	
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	4,775	47,838	96	52,709
Eltek Elektrik Enerjisi İth. İhr. ve Toptan Tic. A.Ş.	-	18,072	-	18,072
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	8,726	7,769	16,495
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	6,826	-	6,826
Ark İnşaat Sanayi ve Ticaret A.Ş.	4,988	-	-	4,988
Koç Holding A.Ş. (**)	-	4,820	-	4,820
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	3,437	836	4,273
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3,642	-	-	3,642
Opet Petrolcülük A.Ş.	3,296	-	-	3,296
Koçtaş Yapı Marketleri Ticaret A.Ş.	2,552	-	-	2,552
Setur Servis Turistik A.Ş.	-	1,683	-	1,683
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,670	-	-	1,670
Ram Dış Ticaret A.Ş.	571	-	-	571
Tanı Pazarlama İlet. Hiz. A.Ş.	-	251	-	251
Otokar Otomotiv Savunma San. A.Ş.	187	-	-	187
Ingage Dijital Pazarlama A.Ş.	-	40	-	40
Other	30	4,277	237	4,544
	21,711	95,970	8,938	126,619
Less: Financial expense from credit purchases	(824)	-	-	(824)
	20,887	95,970	8,938	125,795

Material, vehicle and service purchases from abroad

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Ford Motor Company and its subsidiaries	10,163,509	3,871,788	6,018,419	1,981,805

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

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
	139,087	65,752	72,176	28,470

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

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
	10,188	5,467	9,765	6,860

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26. RELATED PARTY DISCLOSURES (Continued)

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

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
	36,717	15,538	10,848	-

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

Deposits in related banks

30 June 2021 31 December 2020

Yapı ve Kredi Bankası A.Ş.

TRY time deposits	756,542	1,923,043
TRY demand deposits	11,077	84,652
Foreign currency time deposits	563,597	49,770
Foreign currency demand deposits	9,310	1,346
	1,340,526	2,058,811

i) Commission income

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Yapı ve Kredi Bankası A.Ş.	4,963	1,897	905	549
Koç Finansman A.Ş.	2,450	937	585	293
	7,413	2,834	1,490	842

i) Commission expense

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Yapı ve Kredi Bankası A.Ş.	48,749	22,266	8,809	6,338
Koç Finansman A.Ş.	43,948	20,744	7,953	4,557
	92,697	43,010	16,762	10,895

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.

j) Interest income

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Yapı ve Kredi Bankası A.Ş.	121,661	63,766	3,671	2,104

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26. RELATED PARTY DISCLOSURES (Continued)

k) Dividend income

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Otokar Otomotiv ve Savunma Sanayi A.Ş.	2,343	-	1,172	-

l) 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 in the first six months of 2021 is TRY13,947 (30 June 2020: TRY10,824).

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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 30 June 2021 and 31 December 2020. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

30 June 2021

	TRY equivalent (Functional currency)	USD	EUR	Other
1. Trade receivables	3,863,311	4,827	368,688	2
2. Monetary financials assets (including cash and cash equivalents)	1,764,023	5,678	165,353	325
3. Other	705,820	8,696	60,796	-
4. Current assets (1 + 2 + 3)	6,333,154	19,201	594,837	327
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4 + 6)	6,333,154	19,201	594,837	327
8. Trade payables	2,563,867	31,364	219,847	40,248
9. Financial liabilities (*)	5,088,308	-	490,936	-
10. Other monetary liabilities	22,350	-	2,156	-
11. Short term liabilities (8 + 9 + 10)	7,674,525	31,364	712,939	40,248
12. Financial liabilities (*)	3,854,778	-	371,921	-
13. Other	1,061	-	102	-
14. Long term liabilities (12+13)	3,855,839	-	372,023	-
15. Total liabilities (11 + 14)	11,530,364	31,364	1,084,962	40,248
16. Net foreign currency (liabilities)/ assets position (7 - 15)	(5,197,210)	(12,163)	(490,125)	(39,909)
17. Net monetary foreign currency (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(5,901,969)	(20,859)	(550,819)	(39,909)

(*) 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 TRY6,373,572 as of 30 June 2021 (31 December 2020: TRY5,754,292). As of 30 June 2021, the Company has a total of TRY431,170 (31 December 2020: TRY166,918) of the product to be issued.

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2020

	TRY equivalent (Functional currency)	USD	EUR	Other
1. Trade receivables	2,416,395	14,106	256,756	2
2. Monetary financials assets (including cash and cash equivalents)	525,174	4,729	54,356	385
3. Other	371,121	23,856	21,759	-
4. Current assets (1 + 2 + 3)	3,312,690	42,691	332,871	387
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4 + 6)	3,312,690	42,691	332,871	387
8. Trade payables	1,365,145	45,736	113,816	8,125
9. Financial liabilities (*)	2,773,827	-	307,933	-
10. Other monetary liabilities	15,752	-	1,749	-
11. Short term liabilities (8 + 9 + 10)	4,154,724	45,736	423,498	8,125
12. Financial liabilities (*)	4,126,247	-	458,070	-
13. Other	1,253	-	139	-
14. Long term liabilities (12+13)	4,127,500	-	458,209	-
15. Total liabilities (11 + 14)	8,282,224	45,736	881,707	8,125
16. Net foreign currency (liabilities)/assets position (7 - 15)	(4,969,534)	(3,045)	(548,836)	(7,738)
17. Net monetary foreign (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(5,339,402)	(26,901)	(570,456)	(7,738)

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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.

30 June 2021

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	Increase by 10 (%)	Decrease by 10 (%)
Change in USD against TRY		
USD net assets/(liabilities)	(10,588)	10,588
USD net hedged amount	-	-
USD net- gain/(loss)	(10,588)	10,588
Change in EUR against TRY		
EUR net assets/(liabilities)	(507,990)	507,990
EUR net hedged amount	637,357	(637,357)
EUR net- gain/(loss)	129,367	(129,367)
Change in other foreign currency against TRY		
Other foreign currency denominated net (liabilities)/assets	(1,142)	1,142
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	(1,142)	1,142

31 December 2020

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	Increase by 10 (%)	Decrease by 10 (%)
USD net assets/(liabilities)		
USD net hedged amount		
USD net- gain/(loss)	(2,235)	2,235
Change in EUR against TRY	(2,235)	2,235
EUR net (liabilities)/assets		
EUR net hedged amount		
EUR net- gain/(loss)	(494,386)	494,386
Change in other foreign currency against TRY	81,043	(81,043)
Other foreign currency denominated net (liabilities)/assets	(333)	333
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	(333)	333

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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 30 June 2021 and 2020 are as follows:

	30 June 2021	30 June 2020
Total export amount	19,890,920	11,538,648
Total import amount	13,050,889	6,956,761

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

Interest rate risk

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

	30 June 2021	31 December 2020
Fixed interest rate financial instruments		
Financial assets	4,981,262	7,922,892
Financial liabilities	6,884,930	6,400,937
Floating interest rate financial instruments		
Financial liabilities	2,130,162	1,679,937

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 TRY1,015 at 30 June 2021 (31 December 2020: TRY1,149) due to higher/lower interest expense

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

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

30 June 2021	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	8,921,410	9,162,065	1,360,564	3,762,000	3,831,891	207,610
Lease liabilities	93,682	116,046	6,765	20,294	82,313	6,674
Trade payables						
- Related party	2,200,336	2,203,604	2,203,604	-	-	-
- Other	4,038,923	4,088,440	4,088,440	-	-	-
Other liabilities						
- Related party	5,511	5,511	5,511	-	-	-
- Other	145,214	145,214	145,214	-	-	-
Derivative financial liabilities						
Derivative financial instruments	1,061	1,061	-	-	1,061	-

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2020	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	7,998,168	8,261,164	297,222	3,660,102	3,941,284	362,556
Lease liabilities	82,706	104,802	6,000	17,999	73,642	7,161
Trade payables						
- Related party	1,178,339	1,180,856	1,180,856	-	-	-
- Other	6,569,454	6,624,233	6,624,233	-	-	-
Other liabilities						
- Related party	34,350	34,350	34,350	-	-	-
- Other	141,846	141,846	141,846	-	-	-
Derivative financial liabilities						
Derivative financial instruments	1,253	1,253	-	-	1,253	-

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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 30 June 2021 and 31 December 2020, the Company’s hierarchy table for its assets and liabilities recorded at fair value are as follows:

30 June 2021

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	-	-
Financial assets at fair value through OCI - Otokar	39,087	-	-
Total assets	39,087	-	-
Liabilities at fair value			
Derivative financial liabilities	-	1,061	-
Total liabilities	-	1,061	-

(*) 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 2020

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	-	-
Financial assets at fair value through OCI – Otokar	44,767	-	-
Total assets	44,767	-	-
Liabilities at fair value			
Derivative financial liabilities	-	1,253	-
Total liabilities	-	1,253	-

(*) 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 30 June 2021 with the maturity of 23 May 2024 amounting to EUR150,000,000 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 30 June 2021. The fair value of the interest rate swap transaction calculated as of 30 June 2021 is TRY1,061 and it is classified as long- term liabilities.

Derivative financial instruments

	30 June 2021	31 December 2020
Derivative financial liabilities	1,061	1,253
	1,061	1,253

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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 November 2026 with long- term financial borrowings.

	30 June 2021	31 December 2020
Cash flow hedge reserve		
Amount recognized in other comprehensive income	862,628	1,525,928
Amount recycled from other comprehensive income to statement of profit or (loss)	(403,626)	(625,078)
	459,002	900,850

29. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Income from investing activities				
Dividend income	2,343	-	1,172	-
Gain on sale of property, plant and equipment	121	-	-	-
	2,464	-	1,172	-
	1 January- 30 June 2021	1 April- 30 June 2021	1 January- 30 June 2020	1 April- 30 June 2020
Expense from investing activities				
Loss on sale of property, plant and equipment	(1,466)	(1,466)	(728)	(442)
	(1,466)	(1,466)	(728)	(442)

30. DEFERRED REVENUE

	30 June 2021	31 December 2020
Advances received	41,660	32,775
Short-term deferred revenue	13,479	10,262
	55,139	43,037
	30 June 2021	31 December 2020
Long-term deferred revenue	35,173	22,040
	35,173	22,040

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31. OTHER NON-CURRENT LIABILITIES

	30 June 2021	31 December 2020
Other non-current liabilities (*)	17,835	18,699
	17,835	18,699

(*) 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. RIGHT OF USE ASSETS

	Buildings	Machinery and equipments	Vehicles	Total
As of 1 January 2021	18,942	33,720	16,257	68,919
For the period ended 30 June 2021				
Additions	-	4,776	19,402	24,178
Period depreciation and amortization expenses	(3,954)	(8,547)	(5,594)	(18,095)
30 June 2021	14,988	29,949	30,065	75,002

	Buildings	Machinery and equipments	Vehicles	Total
As of 1 January 2020	38,942	47,481	13,291	99,714
For the period ended 30 June 2020				
Additions	-	4,246	12,773	17,019
Disposals	-	(3,661)	-	(3,661)
Period depreciation and amortization expenses	(7,754)	(8,857)	(5,795)	(22,406)
Outputs from accumulated depreciation	-	1,540	-	1,540
30 June 2020	31,188	40,749	20,269	92,206

Distribution of depreciation expenses of right of use assets as of 30 June 2021 and 30 June 2020 is follows:

	30 June 2021	30 June 2020
Cost of sales (Note 18)	12,154	15,272
Marketing expenses (Note 19)	3,893	5,064
General administrative expenses (Note 19)	1,152	1,013
Research and development expenses (Note 19)	896	1,057
	18,095	22,406

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33. GOVERNMENT INCENTIVES AND GRANTS

The Company realizes fixed asset investments with incentives within the scope of 2009 Decisions of the Council of Ministers on State Aid in Investments 2009 numbered 2009/15199 and 2012/3305, which regulates the investment legislation.

The investment projects in which the Company has completed its investment processes and continued to benefit from the contribution amounts to the investment deserved are as follows;

- An investment of TRY559,295 has been made between 2010 and 2013 for the Transit and Transit Custom model investments at Kocaeli Gölcük Plant. The investment contribution rate of this project is 30%.
- An investment of TRY1,300,573 has been made between 2013 and 2017 at Kocaeli Gölcük Plant for Transit expenditures. The investment contribution rate of this project is 50%.
- Investment expenditure of TRY798,311 was made between 2013 and 2016 for the new model Transit Courier investment, which started production with the establishment of the Yeniköy Plant in Kocaeli. The investment contribution rate of this project is 40%.
- In the Eskişehir Plant, an investment of TRY138,960 was made between 2013 and 2019 for the new 6 and 4 cylinder engine production for use in Trucks and Transit vehicles, and an amount of TRY529,645 was invested between 2014 and 2019 for the 6 emission truck manufacturing expansion investment. The investment contribution rates of these projects are 40%. Investment periods for incentives for both investments have been completed and incentive closure processes are continuing with the Ministry of Industry.

The Company’s project which has ongoing investment process and continues to benefit from the investment contribution is as follows;

- In 2016, an investment incentive certificate amounting to TRY849,160 was obtained for the renovation and factory modernization investments at the Gölcük and Yeniköy Factories related to Transit, Transit Courier and Transit Custom models, which are currently being produced at Kocaeli Factories. Investment expenditures are continuing within the scope of this project and the contribution rate of the project to investment is 40%.
- Renewal investments of machinery and equipment used for the manufacturing and assembly of F-Trucks (trucks, tractors), Transit and Transit Custom vehicles manufactured in Eskişehir Factories, Brake Disc and Front Layout that will be started to be produced for use in Transit vehicles. An investment incentive certificate amounting to TRY889,308 was obtained on 30 March 2020 for machinery and equipment investments to be made locally to manufacture the gearbox of F-Trucks, which is a product in the heavy commercial vehicle segment, as well as line installation investments for its complex manufacturing. The contribution rate of this project to investment is 40%.
- Project-based Incentives amounting to TRY20,501,206 for product diversification and expansion investments covering the production of new generation commercial vehicles and batteries in Kocaeli Plants were published in the Official Gazette with the President's Decree No. 3273 dated 4 December 2020. The rate of contribution to the investment to be utilized for this project is 100%.

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33. GOVERNMENT INCENTIVES AND GRANTS (Continued)

With the decision of the Council of Ministers, 15 points were added to the investment contribution rates for the investments to be realized in 2017, and the 15 points advantage that was added to the existing investment contributions was extended with the decisions of the Council of Ministers for the investments of 2018 and 2022.

34. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Gembox Teknoloji Girişimleri A.Ş was established with 100% contribution to capital by Ford Otosan capital in order to carry out research, development, consultancy, engineering and incubation activities and to invest in companies and initiatives established in these areas.

For the central management of the Company's Ford Trucks exporting activities, Ford Otosan Netherlands BV was founded with 100% contribution to capital by Ford Otosan capital.

Investments in subsidiaries as of 30 June 2021 and 31 December 2020 are as follows:

	<u>30 June 2021</u>		<u>31 December 2020</u>	
	<u>Ownership</u>	<u>Amount</u>	<u>Ownership</u>	<u>Amount</u>
	<u>rate (%)</u>		<u>rate (%)</u>	
Investment in subsidiaries				
Gembox Teknoloji Girişimleri Anonim Şirketi	100	5,000	100	2,500
Ford Otosan Netherlands BV	100	2,334	100	2,334
		7,334		4,834

These investments are carried at cost and are not included in the scope of consolidation since their financial statements do not have a significant effect on the financial statements of the Company.

35. SUBSEQUENT EVENTS

Within the scope of financing 1-ton New Generation Commercial Vehicle investment projects, a loan agreement up to € 650 million is signed with European Bank for Reconstruction and Development (EBRD) by our Company. € 175 million of this facility will be funded by EBRD and € 475 million will be delivered by a syndicate of lenders Akbank AG, Bank of China Limited, BNP Paribas Fortis Sa-Nv Brussels, Emirates NBD Bank PJSC, Green for Growth Fund Southeast Europe S.A. SICAV-SIF, HSBC Bank Middle East Limited, Industrial and Commercial Bank of China Limited, Mediobanca – Banca di Credito Finanziario S.p.A., MUFG Bank Ltd, Qatar National Bank (Q.P.S.C.), Société Générale. The funds are expected to be utilized till January 31st, 2022. € 325 million of this facility has a term of five years with approximately two years grace period and an interest rate of Euribor + 2.30 % per annum excluding other charges and fees, whereas remaining € 325 million has a term of seven years with approximately two years grace period and an interest rate of Euribor + 2.45 % per annum excluding other charges and fees. Principal and interest payments will be made semiannually.

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36. DISCLOSURE OF OTHER MATTERS

There is no other issue that significantly affects the financial statements or needs to be explained in order for the financial statements to be clear, interpretable and understandable.

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