

(Convenience translation of financial statements and audit report
originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi Anonim Őirketi
Financial statements for the period January 1 –
June 30, 2016 together with report of independent
auditors (originally issued in Turkish)

**Convenience translation into English of independent auditor's report
originally issued in Turkish**

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors of Ford Otomotiv Sanayi A.Ş. ;

Introduction

We have reviewed the accompanying financial statements of Ford Otomotiv Sanayi A.Ş. ("the Company") as of June 30, 2016, which comprise the statement of financial position and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the six-month-period then ended and a summary of significant accounting policies and explanatory notes. The management of the Company is responsible for the preparation and fair presentation of the interim financial information in accordance with the Turkish Accounting Standards. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, "Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial reporting process, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an independent audit performed in accordance with the Turkish Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review on the interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention which may cause us to conclude that the accompanying interim financial information of Ford Otomotiv Sanayi A.Ş. does not give a true and fair view of financial position and financial performance of the Company as of June 30, 2016, and its cash flows for the six-month period then ended in accordance with the Turkish Accounting Standards.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Erdem Tecer, SMMM
Engagement Partner

August 2, 2016
Istanbul, Turkey

Ford Otomotiv Sanayi A.Ş.

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(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Statement of financial position as at June 30, 2016
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period, (Limited reviewed) June 30, 2016	Prior period, (Audited) December 31, 2015
Assets			
Current assets		4,323,997,979	4,030,872,065
Cash and cash equivalents	4	792,660,550	980,361,277
Trade receivables			
- Trade receivables due from related parties	26	1,252,720,108	1,003,541,568
- Trade receivables due from unrelated parties	7	645,679,103	780,190,818
Other receivables			
- Other receivables due from unrelated parties	8	2,695,949	181,984
Inventories	9	1,311,328,522	1,000,159,224
Prepayments	12	129,376,036	35,126,704
Other current assets	16	189,537,711	231,310,490
Non-current assets		4,447,771,182	4,397,340,093
Financial investments	5	13,638,120	12,625,805
Trade receivables			
- Trade receivables due from unrelated parties	7	1,288,717	187,338
Property, plant and equipment	10	3,290,374,051	3,250,718,303
Intangible assets and goodwill	11	559,073,820	539,719,802
Prepayments	12	80,938,244	91,555,915
Deferred tax asset	24	502,458,230	502,532,930
Total assets		8,771,769,161	8,428,212,158

The financial statements were approved for issue by the Board of Directors on August 2, 2016.

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

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Statement of financial position as at June 30, 2016
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period, (Limited reviewed) June 30, 2016	Prior period, (Audited) December 31, 2015
Liabilities			
Current liabilities		3,931,348,854	3,823,591,411
Current borrowings			
- Bank loans	6	773,132,332	700,877,296
Current portion of non-current borrowings			
- Bank loans	6	729,312,877	558,854,023
Trade payables			
- Trade payables to related parties	26	636,328,999	580,710,088
- Trade payables to unrelated parties	7	1,534,262,019	1,732,940,277
Other payables			
- Other payables to related parties	26	3,424,434	19,912,957
- Other payables to unrelated parties	8	68,427,119	47,709,326
Deferred income	30	5,705,638	7,548,188
Current provisions			
- Other current provisions	13	101,197,044	86,542,499
Employee benefit obligations	15	75,138,267	88,496,757
Current tax liabilities, current	24	4,420,125	-
Non-current liabilities		1,654,340,215	1,544,765,399
Long term borrowings			
- Bank loans	6	1,371,117,266	1,301,034,627
Non-current provisions			
- Non-current provisions for employee benefits	15	120,603,463	106,541,744
- Other non-current provisions	13	85,814,023	82,877,295
Deferred income	30	11,143,105	6,983,689
Other non-current liabilities	31	65,662,358	47,328,044
Equity		3,186,080,092	3,059,855,348
Issued capital		350,910,000	350,910,000
Inflation adjustments on capital		27,920,283	27,920,283
Share premium (Discount)		8,252	8,252
Other accumulated comprehensive income (Loss) that will not be reclassified in profit or loss			
- (Losses) on remeasurements of defined benefit plans		(4,433,681)	(1,652,515)
Other accumulated comprehensive income (loss) that will be reclassified in profit or loss			
- Gains on remeasuring and reclassification of available- for-sale financial assets		12,027,998	11,066,300
- (Losses) on cash flow hedges		(139,556,297)	(154,407,851)
Restricted reserves appropriated from profits		471,747,252	438,410,802
Prior years' profits or losses		2,003,353,627	1,545,689,403
Current period net profit		464,102,658	841,910,674
Total liabilities and equity		8,771,769,161	8,428,212,158

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

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

**Statement of profit or loss
for the period ended June 30, 2016**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Limited reviewed January 1, 2016 - June 30, 2016	Not limited reviewed April 1, 2016 - June 30, 2016	Limited reviewed January 1, 2015 - June 30, 2015	Not limited reviewed April 1, 2015 - June 30, 2015
Continuing operations					
Revenue	18	8,799,836,919	4,614,421,035	7,525,623,143	3,962,290,686
Cost of sales	18	(7,805,958,946)	(4,085,799,514)	(6,686,758,117)	(3,509,991,064)
Gross profit		993,877,973	528,621,521	838,865,026	452,299,622
Marketing expenses	19	(206,386,057)	(115,577,842)	(187,410,554)	(104,545,263)
General administrative expenses	19	(101,426,200)	(57,831,829)	(81,158,613)	(44,379,041)
Research and development expense	19	(156,244,985)	(77,356,622)	(131,643,981)	(76,704,031)
Other income from operating activities	21	87,200,492	48,261,488	92,037,020	58,192,377
Other expenses from operating activities	21	(96,166,409)	(42,298,522)	(65,508,369)	(35,263,857)
Profit from operating activities		520,854,814	283,818,194	465,180,529	249,599,807
Investment activity income	29	421,798	421,798	468,664	468,664
Investment activity expenses	29	(1,153,331)	3,227	(127,200)	(22,666)
Profit before financing income		520,123,281	284,243,219	465,521,993	250,045,805
Finance income	22	162,355,600	123,874,304	81,553,811	48,219,884
Finance costs	23	(206,214,592)	(141,839,978)	(153,110,564)	(92,592,149)
Profit from continuing operations, before tax		476,264,289	266,277,545	393,965,240	205,673,540
Tax (expense) income, continuing operations		(12,161,631)	(5,225,384)	12,539,141	(31,350,633)
- Current period tax (expense) income	24	(11,442,255)	(5,560,181)	(28,861,009)	(21,321,235)
- Deferred tax (expense) income	24	(719,376)	334,797	41,400,150	(10,029,398)
Profit from continuing operations		464,102,658	261,052,161	406,504,381	174,322,907
Earnings per share with a nominal value of Kr 1	25	1,32 Kr	0,74 Kr	1,16 Kr	0,50 Kr

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

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

**Statement of comprehensive income
for the period ended June 30, 2016**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Limited reviewed January 1, 2016 - June 30, 2016	Not limited reviewed April 1, 2016 - June 30, 2016	Limited reviewed January 1, 2015 - June 30, 2015	Not limited reviewed April 1, 2015 - June 30, 2015
Profit		464,102,658	261,052,161	406,504,381	174,322,907
Other comprehensive income (loss)					
Other comprehensive income that will not be reclassified to profit or loss					
(Losses) / gains on remeasurements of defined benefit plans	17	(3,476,458)	402,358	943,211	5,829,494
Taxes relating to remeasurements of defined benefit plans	17	695,292	(80,471)	(188,642)	(1,165,898)
Other comprehensive income that will be reclassified to profit or loss					
Gains (losses) on remeasuring available-for-sale financial assets	17	1,012,314	(1,546,590)	(246,048)	(1,771,548)
Taxes relating to gains (losses) on remeasuring available-for-sale financial assets	17	(50,616)	77,329	12,302	88,576
Gains (losses) on cash flow hedges	17	18,564,442	16,941,362	(91,424,823)	(88,035,540)
Taxes relating to cash flow hedges	17	(3,712,888)	(3,388,272)	18,284,965	17,607,108
Other comprehensive income (loss)		13,032,086	12,405,716	(72,619,035)	(67,447,808)
Total comprehensive income		477,134,744	273,457,877	333,885,346	106,875,099

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

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

**Statement of changes in equity
for the period ended June 30, 2016**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

				Other accumulated comprehensive income that will be reclassified in profit or loss		Other accumulated comprehensive income that will not be reclassified in profit or loss	Retained Earnings			Equity
	Issued capital	Inflation adjustments on capital	Share premiums or discounts	Gains (losses) on remeasuring and reclassification of available-for-sale financial assets	Reserve of gains or (losses) on cash flow hedges	Gains / (losses) on remeasurements of defined benefit plans	Restricted reserves appropriated from profits	Prior years' profits or losses	Net profit or loss	
Balance at January 1, 2015	350,910,000	27,920,283	8,252	10,658,913	(6,039,879)	(13,413,478)	472,233,474	1,317,048,020	594,856,111	2,754,181,696
Profit (loss)	-	-	-	-	-	-	-	-	406,504,381	406,504,381
Other comprehensive (loss) / income	-	-	-	(233,746)	(73,139,858)	754,569	-	-	-	(72,619,035)
Total comprehensive income	-	-	-	(233,746)	(73,139,858)	754,569	-	-	406,504,381	333,885,346
Transfers	-	-	-	-	-	-	18,247,320	576,608,791	(594,856,111)	-
Dividends paid (Note 17)	-	-	-	-	-	-	-	(200,018,700)	-	(200,018,700)
Balance at June 30, 2015	350,910,000	27,920,283	8,252	10,425,167	(79,179,737)	(12,658,909)	490,480,794	1,693,638,111	406,504,381	2,888,048,342
Balance at January 1, 2016	350,910,000	27,920,283	8,252	11,066,300	(154,407,851)	(1,652,515)	438,410,802	1,545,689,403	841,910,674	3,059,855,348
Profit (loss)	-	-	-	-	-	-	-	-	464,102,658	464,102,658
Other comprehensive income / (loss)	-	-	-	961,698	14,851,554	(2,781,166)	-	-	-	13,032,086
Total comprehensive income	-	-	-	961,698	14,851,554	(2,781,166)	-	-	464,102,658	477,134,744
Transfers	-	-	-	-	-	-	33,336,450	808,574,224	(841,910,674)	-
Dividends paid (Note 17)	-	-	-	-	-	-	-	(350,910,000)	-	(350,910,000)
Balance at June 30, 2016	350,910,000	27,920,283	8,252	12,027,998	(139,556,297)	(4,433,681)	471,747,252	2,003,353,627	464,102,658	3,186,080,092

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

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Statement of cash flow
for the period ended June 30, 2016
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period, (Limited reviewed) June 30, 2016	Prior period, (Limited reviewed) June 30, 2015
Cash flows from operating activities:			
Profit		464,102,658	406,504,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	10	184,516,238	166,490,430
Amortization expense	11	38,860,077	25,965,274
Increase in provision for employee benefits	15	10,754,596	11,523,713
Increase in warranty expense provision	13	60,464,046	58,557,701
Increase in provision for litigation expenses	13	3,408,014	4,557,532
Interest income	22	(10,699,018)	(8,117,868)
Interest expense	23	21,327,141	27,714,653
Foreign exchange loss on bank loans		33,266,262	51,641,937
Change in provision for impairment on inventories, net	9	(2,137,726)	(1,079,551)
Change in provision for unused vacation pay liability, net		7,059,078	7,800,013
Change in other provisions, net		1,164,649	806,436
Sales discount accruals	8	(27,912)	925,635
Change in provision for dealer stocks sales premium, net	13	9,756,535	15,415,716
Loss on sale of fixed assets, net	29	1,153,331	127,200
Dividend income	29	(421,798)	(468,664)
Adjustments for tax expenses / (income)		12,161,631	(12,539,141)
Unrealized income of derivatives		-	(12,912)
Net operating profit before changes in operating assets and liabilities		834,707,802	755,812,485
Increase in trade receivables		(118,282,170)	(154,654,972)
Increase in inventories		(313,307,023)	(614,138,155)
Decrease / (increase) in other current assets		41,772,782	(277,153)
Increase in prepaid expenses		(94,249,331)	(131,784,089)
(Decrease) / increase in trade payables		(143,059,348)	55,005,481
(Decrease) / increase in other current liabilities		(10,728,089)	22,324,992
Increase in tax and funds		(751,504)	(6,434,098)
Warranty expenses paid	13	(51,032,001)	(38,765,288)
Litigation expenses paid	13	(5,005,321)	(1,773,646)
Employee benefits paid	15	(7,228,413)	(7,203,506)
Net cash generated from operating activities		132,837,384	(121,887,949)
Cash flows used in investing activities:			
Purchase of property, plant and equipment	10	(207,395,049)	(202,759,358)
Purchase of intangible assets	11	(58,214,095)	(29,291,268)
Proceeds from sale of property, plant and equipment		4,347,695	6,580,470
Decrease in investment advances given		10,617,671	42,662,005
Interest received		9,935,576	7,993,700
Dividend received		421,798	468,664
Net cash used in investing activities		(240,286,404)	(174,345,787)
Cash flows from financing activities:			
Proceeds from borrowings		1,185,941,375	903,573,109
Payments of borrowings		(891,152,672)	(676,043,866)
Interest paid		(24,130,410)	(26,564,946)
Dividends paid	17	(350,910,000)	(200,018,700)
Net cash used in from financing activities		(80,251,707)	945,597
Net decrease in cash and cash equivalents		(187,700,727)	(295,288,139)
Beginning balance of cash and cash equivalents		980,361,277	577,458,259
Ending balance of cash and cash equivalents	4	792,660,550	282,170,120

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

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

1. Organization and nature of the operations

Ford Otomotiv Sanayi A.Ş. (the “Company”) is incorporated and domiciled in Turkey and manufactures, assembles and sells motor vehicles, primarily commercial vehicles, imports and sells passenger cars and manufactures and imports and sells spare parts of those vehicles. The Company was established in 1959 and presently operates as a joint venture between Ford Motor Company and the Koç Group of Companies. The Company is listed on the Borsa İstanbul (“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 Cargo truck plant and engines and powertrain plant which manufactures for trucks and Transit vehicles.

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

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

Year	Average		End of period	
	June 2016	June 2015	June 2016	December 2015
Blue Collar	7,967	7,713	7,948	7,944
White Collar	2,769	2,630	2,769	2,732
Total	10,736	10,343	10,717	10,676

Research and development operations which are also subject to service export is conducted with 1,322 employees in Sancaktepe branch, conducted with 265 employees in R&D center in Kocaeli plant and conducted with 102 employees in Eskişehir, İnönü Plant, totally 1,688 employees as of June 30, 2016 (December 31, 2015: 1,499)

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 interim financial statements have been prepared in accordance with Turkish Accounting Standards (“TAS”) promulgated by the Public Oversight Accounting and Auditing Standards Authority (“POA”) that are set out in the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676. TAS, Turkish Accounting Standards, comprise of Turkish Financial Reporting Standards, its appendix and interpretations.

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with the financial reporting standards issued by the CMB (“CMB Financial Reporting Standards”). The Company’s financial statements have been prepared in accordance with this decision.

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

Company's functional and presentation currency is accepted as TL.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

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 June 30, 2016 has been provided with the comparative financial information of December 31, 2015 and the statement of income, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the period between January 1, 2016 and June 30, 2016 have been provided with the comparative financial information, for the period between January 1, 2015 and June 30, 2015.

2.2 Amendments and interpretations in the standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim financial statements as at 30 June 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2016. The effects of these standards and interpretations on the Company financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

TAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

TAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendment did not have an impact on the financial statements of the Company.

Annual Improvements to TAS/TFRSs

In September 2014, POA issued the below amendments to the standards in relation to “Annual Improvements - 2010–2012 Cycle” and “Annual Improvements - 2011–2013 Cycle.

Annual Improvements - 2010–2012 Cycle

TFRS 2 Share-based Payment:

Definitions relating to performance and service conditions which are vesting conditions are clarified. The amendment is effective prospectively.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

TFRS 3 Business Combinations

The amendment clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of TAS 39 (or TFRS 9, as applicable). The amendment is effective for business combinations prospectively.

TFRS 8 Operating Segments

The changes are as follows: i) An entity must disclose the judgements made by management in applying the aggregation criteria in TFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are ‘similar’. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

TAS 16 Property, Plant and Equipment and TAS 38 Intangible Assets

The amendment to TAS 16.35(a) and TAS 38.80(a) clarifies that revaluation can be performed, as follows: i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment is effective retrospectively.

TAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is effective retrospectively.

Annual Improvements – 2011–2013 Cycle

TFRS 3 Business Combinations

The amendment clarifies that: i) Joint arrangements are outside the scope of TFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

TFRS 13 Fair Value Measurement

The portfolio exception in TFRS 13 can be applied to financial assets, financial liabilities and other contracts within the scope of TAS 39 (or TFRS 9, as applicable). The amendment is effective prospectively.

TAS 40 Investment Property

The amendment clarifies the interrelationship of TFRS 3 and TAS 40 in determining whether the transaction is the purchase of an asset or business combination. The amendment is effective prospectively.

The amendments did not have a significant impact on the consolidated financial statements of the Company.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the interim financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

TFRS 9 Financial Instruments – Classification and measurement

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Phase 1 of this new TFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is adopted by POA.

TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other IFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Company.

TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)

The amendments to TAS 16 and TAS 38 have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Company.

TAS 16 Property, Plant and Equipment and TAS 41 Agriculture (Amendment) – Bearer Plants

TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)

IASB issued an amendment to TAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity’s separate financial statements. Therefore, an entity must account for these investments either:

- At cost
 - In accordance with TFRS 9,
- Or
- Using the equity method defined in TAS 28

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors’ interests in that former subsidiary. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to TFRS 10 and TAS 28)

Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

TAS 1: Disclosure Initiative (Amendments to TAS 1)

Amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the interim financial statements of the Company.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Annual Improvements to TFRSs - 2012-2014 Cycle

IASB issued, Annual Improvements to TFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- TFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan.
- TFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with TFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- TAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.
- TAS 34 Interim Financial Reporting – clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

These amendments did not have significant impact on the financial position or performance of the Company.

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

Annual Improvements – 2010–2012 Cycle

TFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Annual Improvements – 2011–2013 Cycle

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 9 Financial Instruments - Final standard (2014)

The IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Company applies this relief, it shall disclose that fact. The amendment are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Company first applies those amendments, it is not required to provide comparative information for preceding periods. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

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 and allowance for trade receivables

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

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

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

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

The Company collects most of the receivables 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 (Note 7 and 26).

Inventories

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

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

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 2.3 Research and development expenses (Note 11).

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.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

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 investments

Investments intended to be held for an indefinite period of time, and which may be sold in response to a need for liquidity or changes in interest rates are classified as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the statement of financial position date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Available-for-sale financial assets are subsequently measured at fair value. Available-for-sale financial assets that are quoted in active markets are measured based on current bid prices. If the market for a financial asset is not active the fair value is determined by using valuation techniques such as discounted cash flow analysis and option pricing models.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are accounted in equity net of tax under “financial assets fair value reserve”. Unrealised gains and losses arising from changes in the fair value of available-for-sale debt securities are the differences between the fair value of such securities and their amortised costs at the reporting date. When available-for-sale securities are sold, collected or otherwise disposed of, related deferred gains and losses in equity are transferred to the income statement. If the difference between the cost and the fair value of the available-for-sale securities is permanent, gains and losses are transferred to the income statement.

Interest and dividends associated to the available-for-sale financial assets are accounted under corresponding interest income and dividend income accounts.

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.

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Deferred tax

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

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

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

Current and deferred tax

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

Revenue recognition

Goods & services sales

Revenue comprises the invoiced value for the sale of goods and services. Revenue is recognized on an accrual basis at fair value 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 be obtained by the Company.

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. However, if the Company makes a repurchase commitment, which shall most likely to be applied for its domestic sales, sales made in this scope are not recognized as revenue and tracked under “Other Long Term Liabilities” (Note 31). Sales, which are mentioned in repurchase commitment, are evaluated as operating lease and tracked as deferred income through allocating the difference between the price paid by clients and their repurchase price to leasing period (Note 30).

For export sales significant risk and rewards are transferred to the buyer on FAS, “Final Assignment to Ship” terms. For export service sales, significant risk and rewards are transferred to the buyer when services are given is determined and revenue reasonably.

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).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (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 TL at the Central Bank of Turkey (TCB) 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 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:

	TL/USD	TL/Euro	TL/GBP
June 30, 2016	2.8936	3.2044	3.8690
December 31, 2015	2.9076	3.1776	4.3007
June 30, 2015	2.6863	2.9822	4.2104

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.

Short term 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).

Export sales mainly consist of sales to Ford Motor Company and its subsidiaries. Collection terms and 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.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Price risk

The Company is exposed to equity securities price risk because of investments classified on the statement of financial position as available-for-sale. The Company limits the available-for-sale financial assets 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 80 million and factoring agreement amounting to Euro 125 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.

Funding risk

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

Foreign exchange risk

The Company is exposed to foreign exchange risk through the impact of rate changes on the translation of foreign currency assets and liabilities into local currency. This risk is monitored by management through Audit Committee and regular Board of Director’s meetings.

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

Capital risk management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

The Company monitors capital on the basis of the “net financial debt to tangible capital ratio”. This ratio is calculated as net financial debt divided by tangible capital. Net financial debt is calculated as total short and long term borrowings minus cash and cash equivalents, whereas tangible equity is calculated as equity, as shown in the statement of financial position minus intangible assets. According to the decision of Company management, this ratio is expected not to exceed 1.25.

	June 30, 2016	December 31, 2015
Net financial debt	2,080,901,925	1,580,404,669
Tangible equity	2,627,006,272	2,520,135,546
Net financial debt / tangible equity ratio	0.79	0.63

Fair value of financial instruments

The Company measures derivatives and available for sale financial assets 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

The fair values of balances denominated in foreign currencies, which are translated using year-end exchange rates, are considered to approximate their carrying value. The fair values of certain financial assets carried at cost, including cash and amounts due from banks and deposits with banks 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 impairment are estimated to be their fair values due to their short-term nature.

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.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Derivative financial instruments and 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.

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.

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 behaviors stated in labor 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.

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

b) Defined contribution plan:

The Company has to compensate the Social Security Contribution of the employees. As long as this is compensated, there is no any other obligation for the Company. Social Security Contributions are classified as personnel expenses as of the accrual date (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).

Warranty expenses provision

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).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Leasing – the Company as the lessee

Operating leases

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

Leasing – the Company as lessor

Operational Leasing

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

Related parties

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

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

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

(b) An entity is related to a reporting entity if any of the following conditions 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)

A 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).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Earnings per share

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

Reporting of cash flows

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

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

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

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

Contingent assets and liabilities

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

Subsequent events

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

Offsetting

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

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Government grants and incentives

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

2.4 Accounting policies, changes in accounting estimates and errors

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

2.5 Significant accounting estimates and decisions

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

- (a) In calculation of the employee benefit provision actuarial assumptions relating to turnover ratio, discount rate and salary increase are used. The details regarding the calculation are disclosed in provision for employee benefits (Note 15).
- (b) In determination of the impairment of trade receivables, the factors such as debtor credibility, historical payment performance and debt restructuring is considered (Note 7).
- (c) Discounted inventory price list is used to calculate inventory impairment. Where the sales price cannot be predicted, technical personnel's opinion and inventory waiting time is considered. If expected net realizable value is less than cost, the Company should allocate provisions for inventory impairment (Note 9).
- (d) In determination of the legal case provisions, the possibilities of losing the case and the liabilities that will arise if the case is lost is evaluated by the Company's Legal Counselor 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 June 30, 2015 and December 31, 2014 since presumptions that the Company will have taxable profit in the forthcoming periods are found to be sufficient (Note 24).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

- (g) The Company recognizes depreciation and amortization for its property, plant and equipments and intangibles by taking into account their useful lives that are stated in Note 2.3 (Note 10 and 11).
- (h) Development costs related to continuing projects are capitalized and the Company management perform impairment test regarding those capitalized costs annually. As of June 30, 2016 and December 31, 2015, there is no impairment determined related to development costs in progress (Note 11).

2.6 Convenience translation into English of financial statements originally issued in Turkish

As of June 30, 2016, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

3. Segment reporting

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

4. Cash and cash equivalents

The maturity period of time deposits is up to three months and there is no blockage/restriction on cash and cash equivalents. The weighted average interest rate for Euro denominated time deposits is %1.37 (December 31, 2015 – 1.60%) and the weighted average interest rate for the TL time deposits is %11.75. (December 31, 2015 – 13.06%).

	June 30, 2016	December 31, 2015
Banks - foreign currency time deposits	522,289,908	706,689,282
Banks - TL time deposits	232,063,794	237,215,637
Banks - TL demand deposits	36,948,350	32,355,917
Banks - foreign currency demand deposits	1,358,498	4,100,441
	792,660,550	980,361,277

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

5. Financial investments

	June 30, 2016		December 31, 2015	
	Shareholding %	Amount	Shareholding %	Amount
Available-for-sale financial assets:				
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0.59	13,638,120	0.59	12,625,805
		13,638,120		12,625,805

(*) The Company’s shareholding in Otokar was stated at market value at June 30, 2016 and December 31, 2015 which is assumed to approximate its fair value.

6. Financial liabilities

Current borrowings:

	June 30, 2016		December 31, 2015	
	Effective Interest rate %	TL Amount	Effective interest rate %	TL Amount
- Euro	1.02	641,888,051	1.21	700,877,296
- USD	0.94	115,744,000	-	-
- TL	-	15,500,281	-	-
		773,132,332		700,877,296

Current portion of non-current borrowings:

	June 30, 2016		December 31, 2015	
	Effective interest rate %	TL Amount	Effective interest rate %	TL Amount
- Euro	2.27	729,312,877	2.46	558,854,023
		729,312,877		558,854,023
Total current borrowings		1,502,445,209		1,259,731,319

Long term borrowings:

- Euro	1.57	1,371,117,266	1.81	1,301,034,627
		1,371,117,266		1,301,034,627

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

6. Financial liabilities (continued)

The payment schedules of long-term bank borrowings as of June 30, 2016 and December 31, 2015 are as follows:

Payment period	June 30, 2016	December 31, 2015
	Total TL	Total TL
2017	243,660,812	428,255,354
2018	471,425,103	408,511,646
2019	334,839,816	275,886,364
2020	188,973,043	133,870,989
2021	106,683,009	54,510,274
2022	25,535,483	-
	1,371,117,266	1,301,034,627

The letters of bank guarantee given to financial institutions in connection with borrowings amount to TL 1,049,087,123 (December 31, 2015 – TL 1,004,243,815) (Note 13).

7. Trade receivables and payables

	June 30, 2016	December 31, 2015
Short term trade receivables:		
Trade receivables	651,928,519	788,940,298
Doubtful receivables	4,533,456	4,533,456
Less: Unearned credit finance income	(6,249,416)	(8,749,480)
	650,212,559	784,724,274
Less: Provision for doubtful receivables	(4,533,456)	(4,533,456)
	645,679,103	780,190,818

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days. (December 31, 2015: 25 days), domestic sales of spare parts turnover is 70 days (December 31, 2015: 70 days) and discounted by 0.98% monthly effective interest rate (December 31, 2015: 1.12%).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

7. Trade receivables and payables (continued)

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

	June 30, 2016	December 31, 2015
Long term trade receivables:		
Deposits and guarantees given	1,288,717	187,338
	1,288,717	187,338

	June 30, 2016	December 31, 2015
Trade payables:		
Trade payables	1,543,752,800	1,743,208,811
Less: Unearned credit finance expense	(9,490,781)	(10,268,534)
	1,534,262,019	1,732,940,277

The average turnover of trade payables is 60 days. (December 31, 2015: 60 days) and discounted by 0.98% monthly effective interest rate. (December 31, 2015: 1.12 %).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

7. Trade receivables and payables (continued)

The maximum exposure of the Company to credit risk as of June 30, 2016 and December 31, 2015 is as follows:

June 30, 2016	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	1,252,720,108	645,679,103	-	2,695,949	792,660,550
- The maximum of credit risk covered by guarantees	110,000,000	645,557,447	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	1,212,762,742	645,370,467	-	2,695,949	792,660,550
The carrying amount of financial assets whose terms have been renegotiated otherwise classified as overdue or impaired	-	-	-	-	-
Net book value of financial assets that are overdue but not impaired	39,957,366	308,636	-	-	-
- Amount of risk covered by guarantees	-	186,980	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533,456	-	-	-
- Provision for impairment (-)	-	(4,533,456)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

7. Trade receivables and payables (continued)

December 31, 2015	Trade receivables		Other receivables		Deposits in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	1,003,541,568	780,190,818	-	181,984	980,361,277
-- The maximum of credit risk covered by guarantees	110,000,000	708,237,239	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	982,044,554	772,608,733	-	181,984	980,361,277
The carrying amount of financial assets whose terms have been renegotiated otherwise classified as overdue or impaired	-	-	-	-	-
Net book value of financial assets that are overdue but not impaired	21,497,014	7,582,085	-	-	-
- Amount of risk covered by guarantees	-	1,942,605	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533,456	-	-	-
- Provision for impairment (-)	-	(4,533,456)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

7. Trade receivables and payables (continued)

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

June 30, 2016	Trade receivables	
	Related party	Other
1-30 days overdue	26,377,115	119,604
1-3 months overdue	1,334,401	188,836
3-12 months overdue	10,359,456	196
1-5 years overdue	1,886,394	-
	39,957,366	308,636
Risk covered by guarantees	-	186,980

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

December 31, 2015	Trade receivables	
	Related party	Other
1-30 days overdue	5,179,761	4,442,933
1-3 months overdue	9,637,410	286,150
3-12 months overdue	6,078,928	2,853,002
1-5 years overdue	600,915	-
	21,497,014	7,582,085
Risk covered by guarantees	-	1,942,605

8. Other receivables and payables

	June 30, 2016	December 31, 2015
Other receivables:		
Other miscellaneous receivables	2,695,949	181,984
	2,695,949	181,984
	June 30, 2016	December 31, 2015
Other payables:		
Taxes and funds payable	37,421,345	40,535,209
Marketing expenses and other accruals	11,418,014	-
Grants and donations payable	8,793,964	-
Sales premium accruals	5,390,116	5,418,028
Other	5,403,680	1,756,089
	68,427,119	47,709,326

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

9. Inventories

	June 30, 2016	December 31, 2015
Finished goods	569,499,730	358,386,847
Raw materials	261,079,192	273,387,566
Import vehicles	207,648,271	86,134,465
Vehicle spare parts	134,212,828	116,488,425
Goods in transit	92,619,733	130,103,025
Spare parts	31,923,597	28,419,319
Other	20,812,320	11,569,000
	1,317,795,671	1,004,488,647
Less: Provision for impairment of finished goods and vehicle spare parts	(6,467,149)	(4,329,423)
	1,311,328,522	1,000,159,224

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:

	2016	2015
At January 1	4,329,423	2,995,284
Change within the period	2,137,726	1,079,551
At June 30	6,467,149	4,074,835

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 provision has been accounted under cost of sales (Note 18).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

10. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery & equipments	Models & moulds	Fixtures & furnitures	Vehicles(*)	Construction in progress	Total
December 31, 2015									
Cost	12,269,499	150,449,476	905,798,788	2,287,633,288	1,941,078,956	344,842,765	74,225,686	45,464,847	5,761,763,305
Accumulated depreciation	-	(66,615,512)	(339,275,284)	(1,012,441,024)	(892,703,377)	(193,167,100)	(6,842,705)	-	(2,511,045,002)
Net book value	12,269,499	83,833,964	566,523,504	1,275,192,264	1,048,375,579	151,675,665	67,382,981	45,464,847	3,250,718,303
For the period ended June 30, 2016									
Opening net book value	12,269,499	83,833,964	566,523,504	1,275,192,264	1,048,375,579	151,675,665	67,382,981	45,464,847	3,250,718,303
Additions	-	2,100,421	3,691,979	42,760,126	95,895,703	21,314,484	30,036,887	33,873,410	229,673,010
Transfers	-	1,944,878	7,608,969	4,430,482	3,797,868	5,040	-	(17,787,237)	-
Disposals	-	(515,424)	(208,086)	(2,918,575)	(420,431)	(641,195)	(5,368,167)	-	(10,071,878)
Depreciation charge	-	(2,787,419)	(15,855,658)	(68,900,562)	(77,657,176)	(15,135,812)	(4,179,611)	-	(184,516,238)
Disposals from accumulated depreciation	-	301,253	30,414	2,898,847	420,431	516,132	403,777	-	4,570,854
Closing net book value	12,269,499	84,877,673	561,791,122	1,253,462,582	1,070,411,974	157,734,314	88,275,867	61,551,020	3,290,374,051
June 30, 2016									
Cost	12,269,499	153,979,351	916,891,650	2,331,905,321	2,040,352,096	365,521,094	98,894,406	61,551,020	5,981,364,437
Accumulated depreciation	-	(69,101,678)	(355,100,528)	(1,078,442,739)	(969,940,122)	(207,786,780)	(10,618,539)	-	(2,690,990,386)
Net book value	12,269,499	84,877,673	561,791,122	1,253,462,582	1,070,411,974	157,734,314	88,275,867	61,551,020	3,290,374,051

The Company has compared the borrowing costs of investment loans which has taken in foreign currency to the TL market loan interest. There is no foreign exchange differences which has been recognized under property, plant and equipment within the context of TMS 23 according to the cumulative approach as of June 30, 2016 (December 31, 2015: None).

There is no collateral, pledge or mortgage on tangible assets as of June 30, 2016 and 2015.

(*) 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 TL 74,886,033 (December 31, 2015 : TL 52,608,072).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

10. Property, plant and equipment (continued)

	Land	Land improvements	Buildings	Machinery & equipments	Models & moulds	Fixtures & furnitures	Vehicles	Construction in progress	Total
December 31, 2014									
Cost	11,874,536	142,405,313	871,767,345	2,242,217,206	1,691,329,342	311,443,358	16,341,221	26,545,344	5,313,923,665
Accumulated depreciation	-	(61,143,024)	(307,086,903)	(889,103,540)	(758,523,911)	(166,465,672)	(3,218,031)	-	(2,185,541,081)
Net book value	11,874,536	81,262,289	564,680,442	1,353,113,666	932,805,431	144,977,686	13,123,190	26,545,344	3,128,382,584
For the year ended June 30, 2015									
Opening net book value	11,874,536	81,262,289	564,680,442	1,353,113,666	932,805,431	144,977,686	13,123,190	26,545,344	3,128,382,584
Additions	-	1,147,819	3,466,625	29,450,490	126,601,826	11,015,253	6,010,293	25,067,052	202,759,358
Transfers	-	92,670	20,527,821	1,401,983	13,071,874	407,809	558,917	(36,061,074)	-
Disposals	-	-	(5,281)	(1,587,578)	(751,579)	(422,389)	(6,378,500)	-	(9,145,327)
Depreciation charge	-	(2,777,764)	(16,486,766)	(70,058,027)	(63,189,137)	(13,062,705)	(916,031)	-	(166,490,430)
Disposals from accumulated depreciation	-	-	5,281	1,538,174	46,758	371,740	475,704	-	2,437,657
Closing net book value	11,874,536	79,725,014	572,188,122	1,313,858,708	1,008,585,173	143,287,394	12,873,573	15,551,322	3,157,943,842
June 30, 2015									
Cost	11,874,536	143,645,802	895,756,510	2,271,482,101	1,830,251,463	322,444,031	16,531,931	15,551,322	5,507,537,696
Accumulated depreciation	-	(63,920,788)	(323,568,388)	(957,623,393)	(821,666,290)	(179,156,637)	(3,658,358)	-	(2,349,593,854)
Net book value	11,874,536	79,725,014	572,188,122	1,313,858,708	1,008,585,173	143,287,394	12,873,573	15,551,322	3,157,943,842

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

10. Property, plant and equipment (continued)

The carrying amounts of fully depreciated property, plant and equipment are as follows:

	June 30, 2016	December 31, 2015
Moulds and models	619,028,125	618,908,035
Machinery and equipment	341,217,944	323,154,392
Furniture and fixtures	86,763,863	77,658,937
Buildings	73,728,076	72,617,558
Land improvements	9,686,578	8,385,921
Vehicles	1,173,331	1,171,533
	1,131,597,917	1,101,896,376

The allocation of depreciation expense as of June 30, 2016 and 2015 is as follows:

	June 30, 2016	June 30, 2015
Cost of production (Note 18)	172,106,313	154,218,002
Research and development expenses (Note 19)	6,959,950	5,734,635
General administrative expenses (Note 19)	3,493,411	2,720,477
Marketing expenses (Note 19)	1,308,658	1,141,247
Associated with construction in progress	647,906	2,676,069
	184,516,238	166,490,430

11. Intangible assets

December 31, 2015	Rights	Development cost	Development costs in progress	Other	Total
Cost	31,101,200	649,415,099	52,668,735	6,460,411	739,645,445
Accumulated amortization	(29,105,754)	(165,992,349)	-	(4,827,540)	(199,925,643)
Net book value	1,995,446	483,422,750	52,668,735	1,632,871	539,719,802
For the period ended June 30, 2016					
Opening net book value	1,995,446	483,422,750	52,668,735	1,632,871	539,719,802
Additions	1,964,830	56,225,975	-	23,290	58,214,095
Depreciation charge	(3,844,176)	(34,691,522)	-	(324,379)	(38,860,077)
Closing net book value	116,100	504,957,203	52,668,735	1,331,782	559,073,820
June 30, 2016					
Cost	33,066,030	705,641,074	52,668,735	6,483,701	797,859,540
Accumulated amortization	(32,949,930)	(200,683,871)	-	(5,151,919)	(238,785,720)
Net book value	116,100	504,957,203	52,668,735	1,331,782	559,073,820

There is no carrying amounts of fully depreciated intangible assets as of June 30, 2016.

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

11. Intangible assets (continued)

The Company compared the borrowing costs of investment loans in foreign currency to the TL market loan interest and foreign exchange differences and interest costs equal to an amount of TL 2,396,388 (December 31, 2015: TL 1,935,895) has been recognized under property, plant and equipment according to the cumulative approach within the context of TMS 23 as of June 30, 2016.

December 31, 2014	Rights	Development cost	Development costs in progress	Other	Total
Cost	20,861,575	423,371,450	206,284,643	6,460,411	656,978,079
Accumulated amortization	(20,330,019)	(112,372,206)	-	(3,885,754)	(136,587,979)
Net book value	531,556	310,999,244	206,284,643	2,574,657	520,390,100

For the period ended June 30, 2015

Opening net book value	531,556	310,999,244	206,284,643	2,574,657	520,390,100
Additions	4,505,007	24,786,261	-	-	29,291,268
Transfers	-	175,497,097	(175,497,097)	-	-
Depreciation charge	(3,788,406)	(21,692,621)	-	(484,247)	(25,965,274)
Closing net book value	1,248,157	489,589,981	30,787,546	2,090,410	523,716,094

June 30, 2015

Cost	25,366,582	623,654,808	30,787,546	6,460,411	686,269,347
Accumulated amortization	(24,118,425)	(134,064,827)	-	(4,370,001)	(162,553,253)
Net book value	1,248,157	489,589,981	30,787,546	2,090,410	523,716,094

The allocation of amortization charges relating to June 30, 2016 and 2015 is as follows:

	June 30, 2016	June 30, 2015
Cost of production (Note 18)	35,410,975	21,525,378
General administrative expenses (Note 19)	2,170,299	2,804,854
Research and development expenses (Note 19)	1,183,369	1,462,360
Marketing expenses (Note 19)	32,096	87,648
Associated with construction in progress	63,338	85,034
	38,860,077	25,965,274

12. Prepayments

Short term prepayments:	June 30, 2016	December 31, 2015
Advances given for inventories	125,737,362	30,252,325
Other prepayments	3,638,674	4,874,379
	129,376,036	35,126,704

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

12. Prepayments (continued)

Long term prepayments:	June 30, 2016	December 31, 2015
Advances given for investments (*)	80,938,244	91,555,915
	80,938,244	91,555,915

(*) Investment advances given are related to the Company’s new vehicle investments. TL 49,777,245 (December 31, 2015: TL 71,583,140) is given to domestic vendors as mould advances and TL 31,160,999 (December 31, 2015: TL 19,972,775) is given for the new investments.

13. Provision, contingent assets and liabilities

The Company recognizes 2 and 3 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 statement of financial position date and warranty claims of vehicles sold in previous years on a model basis.

Short term provisions:

	June 30, 2016	December 31, 2015
Warranty expense provision	63,030,599	58,132,589
Provisions for sales premium (*)	38,166,445	28,409,910
	101,197,044	86,542,499

(*) Provisions for sales premium is composed of expense accruals related with dealer vehicle stock at the reporting date (Note 2.3).

Long term provisions:

	June 30, 2016	December 31, 2015
Warranty expense provision	48,016,387	43,482,352
Provisions for lawsuit	37,797,636	39,394,943
	85,814,023	82,877,295

The provisions for lawsuit risks relating to period is as follows:

	2016	2015
At January 1	39,394,943	20,018,564
Paid during the period	(5,005,321)	(1,773,646)
Additions during the period	3,408,014	4,557,532
At June 30	37,797,636	22,802,450

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

13. Provision, contingent assets and liabilities (continued)

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

	2016	2015
At January 1	101,614,941	61,084,163
Paid during the period	(51,032,001)	(38,765,288)
Additions during the period (Note 19)	60,464,046	58,557,701
At June 30	111,046,986	80,876,576
Letters of guarantee and letters of credit	June 30, 2016	December 31, 2015
Letters of guarantee given to financial institutions due to bank loans	1,049,087,123	1,004,243,815
Letters of guarantee given to customs	36,641,155	31,869,492
Letters of guarantees given to other parties	10,775,278	6,154,028
	1,096,503,556	1,042,267,335

Letters of guarantee given	June 30, 2016		December 31, 2015	
	Original currency	TL	Original currency	TL
Euro	301,327,931	965,575,221	326,097,162	1,036,206,341
USD	40,013,000	115,781,617	13,000	37,798
TL	15,146,718	15,146,718	6,023,196	6,023,196
		1,096,503,556		1,042,267,335

The allocation of collaterals, pledges and mortgages as of June 30, 2016 and December 31, 2015 as follows:

Collaterals, pledges and mortgages given by the Company	June 30, 2016	December 31, 2015
A. Total amount of collaterals/pledges/mortgages given for its own legal entity	1,096,503,556	1,042,267,335
B. Total amount of collaterals/pledges/mortgages given for participations included in entire consolidation	-	-
C. Total amount of collaterals/pledges/mortgages given to assure debts of third parties, for the purpose of conducting the business activities	-	-
D. Total amount of other collaterals/pledges/mortgages given		
i. Total amount of collaterals/pledges/mortgages given for the parent company	-	-
ii. Total amount of collaterals/pledges/mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals/pledges/mortgages given for third parties that do not fall into C section	-	-
Total	1,096,503,556	1,042,267,335

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

13. Provision, contingent assets and liabilities (continued)

As of June 30, 2016 and December 31, 2015, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows :

Letters of guarantee taken

	June 30, 2016		December 31, 2015	
	Original currency	TL	Original currency	TL
TL	113,648,073	113,648,073	145,171,087	145,171,087
Euro	11,488,356	36,813,288	11,514,769	36,589,331
USD	347,750	1,006,249	46,250	134,477
		151,467,610		181,894,895

Tax dispute:

Fiscal Administration, imposed tax amount related to the fuel consumption for export vehicles for the years between 2007 and 2009, amounting to TL 11,982,710 which includes Special Consumption Tax, tax penalty and related interest. As a result of consultations with their advisors, the Company filed an appeal lawsuit at the court. The Company won the first lawsuits at the court filed separately for each year and the appeal processes. The courts are in the process of revision of decision.

14. Commitments

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

- a) Based on the credit agreements made by the Company in 2014, amounting to Euro 80,000,000 with Citibank A.Ş. and Euro 20,000,000 with T.C. Ziraat Bankası A.Ş., Euro 20,000,000 with Akbank TA.Ş in 2013 and based on the credit agreements made by the Company in 2011, Euro 60,000,000 with Vakıflar Bankası T.A.O., the Company is required to ensure that its export proceeds up to an amount equal to Euro 180,000,000 is transacted through the accounts of these banks. The Company fulfilled these commitments as of June 30, 2016.
- b) Based on the 1 year credit agreements made by the Company in 2016, amounting to Euro 40,000,000 with Yapı Kredi and amounting to Euro 40,000,000 with İş Bankası A.Ş. totally Euro 80,000,000, the Company is required to ensure that its export proceeds up to an amount equal to Euro 80,000,000 is transacted through Yapı Kredi accounts and Euro 80,000,000 is transacted through İş Bankası totally TL 160,000,000 for the year 2015. The Company fulfilled these commitments as of June 30, 2016.
- c) Based on the credit agreements made by the Company with Türkiye İhracat Kredi Bankası A.Ş.(Eximbank);
 - With 8 months term credit amounting to Euro 35,000,000 used in February 2016 an amount of Euro 35,000,000 and,
 - With 4 months term credit amounting to USD 40,000,000 used in April 2016 an amount of Euro 40,000,000 and,
 - With 8 months term credit amounting to Euro 70,000,000 used in May 2016 an amount of Euro 70,000,000 and,
 - With 8 months term credit amounting to Euro 35,000,000 used in June 2016 an amount of Euro 35,000,000.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

14. Commitments (continued)

Operational lease commitments

Future lease payments under non-cancellable operating lease of the Company is as follows:

Operational lease commitments	June 30, 2016	December 31, 2015
Within 1 year	5,793,726	6,511,876
Between 1 year to 5 years	4,941,021	8,272,270
	10,734,747	14,784,146

15. Employee benefit obligations

Liabilities for employee benefit obligations:

	June 30, 2016	December 31, 2015
Salaries and social charges payable	46,111,001	44,554,668
Social security premiums payable	18,643,985	18,487,894
Withholding income tax payable	8,648,296	23,539,659
Other	1,734,985	1,914,536
	75,138,267	88,496,757

Provision for employee benefits:

	June 30, 2016	December 31, 2015
Provision for employee benefits	94,581,960	87,579,319
Provision for unused vacation pay liability	26,021,503	18,962,425
	120,603,463	106,541,744

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 TL 4,092.53 for each year of service as of June 30, 2016 (December 31, 2015 – TL 3,828.37).

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

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

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

15. Employee benefit obligations (continued)

	June 30, 2016	December 31, 2015
Discount rate (%)	10.4	10.4
Expected salary increase rate(%)	5.5	5.5
Net discount rate	4.60	4.60
Turnover rate to estimate the probability of retirement (%)	3.5	3.5

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 TL 4,092.53 which was effective as of January 1, 2016 (September 1, 2015 - December 31, 2015 - TL 3,828.37) has been used in the calculations.

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

	2016	2015
At January 1	87,579,319	87,700,826
Interest cost	4,532,230	3,578,194
Current year service cost	6,222,366	7,945,519
Paid during the period	(7,228,413)	(7,203,506)
Actuarial loss / (gain)	3,476,458	(943,211)
At June 30	94,581,960	91,077,822

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of June 30, 2016 is below:

Sensitivity level	Turnover rate related to the probability of retirement			
	Net discount rate		0.5%	
	0.5% decrease	0.5% increase	decrease	increase
Rate (%)	(4.10)	(5.10)	95.97	96.97
Change in provision for employee benefits	5,220,749	(4,783,883)	(5,194,147)	5,651,430

16. Other current assets

	June 30, 2016	December 31, 2015
VAT to be deductible (*)	182,506,747	204,667,078
Prepaid taxes and withholding	1,597,119	5,149,079
Other	5,433,845	21,494,333
	189,537,711	231,310,490

(*) VAT to be deductible is related to the ongoing process of refund of export VAT receivable related to May and June of 2016.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)

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17. Equity

The composition of the Company’s paid-in capital as of June 30, 2016 and December 31, 2015 is as follows:

Shareholders	Share Group	June 30, 2016	Shareholders		
			percentage (%)	December 31, 2015	
Koç Holding A.Ş.	B	134,953,357	38.46	134,953,357	38.46
Temel Ticaret A.Ş.	B	2,355,885	0.67	2,355,885	0.67
Ford Motor Company	C	143,997,036	41.04	143,997,036	41.04
Vehbi Koç Vakfı	A	3,558,449	1.01	3,558,449	1.01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3,259,202	0.93	3,259,202	0.93
Other (Publicly held)	A	62,786,071	17.89	62,786,071	17.89
Total		350,910,000	100	350,910,000	100
Inflation adjustment to share capital		27,920,283		27,920,283	
Inflation adjusted paid in capital		378.830.283		378,830,283	

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 (December 31, 2015: 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 TL 471,747,252 as of June 30, 2016 (December 31, 2015 – TL 438,410,802).

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

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

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

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

17. Equity (continued)

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014. Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments 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 General Assembly Meeting dated as of March 29, 2016, the Company has decided to distribute dividends from the net profit of the year 2015, at the gross rate of 100% (85% net), with a total amount of TL 350,910,000, as gross TL 1 (net Kr 85) for each share with a value of TL 1. The Company made the dividend payment in April 2016. (2015: The Company has paid dividend at the rate of 57%, that is gross Kr 57 (net Kr 48.25) per TL 1 share, amounting to TL 200,018,700 in total).

In accordance with Communiqué No: II-14,1, “Communiqué on the Principles of Financial Reporting In Capital Markets”, equity schedule at June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
Share capital	350,910,000	350,910,000
Inflation adjustment to share capital	27,920,283	27,920,283
Share premium	8,252	8,252
Gains on remeasuring available-for-sale financial assets	12,027,998	11,066,300
Net loss on cash flow hedge	(139,556,297)	(154,407,851)
(Losses) on remeasurements of defined benefit plans	(4,433,681)	(1,652,515)
Restricted reserves	471,747,252	438,410,802
- Legal reserves	471,747,252	438,410,802
Retained earnings	2,003,353,627	1,545,689,403
- Inflation adjustment to equity	428,301,244	428,301,244
- Extraordinary reserves	1,575,052,383	1,117,388,159
Net income for the period	464,102,658	841,910,674
Share capital	3,186,080,092	3,059,855,348

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended June 30, 2016 and December 31, 2015 are as follows:

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

17. Equity (continued)

June 30, 2016:	Historical values	Adjusted values	Equity inflation adjustment differences
Share capital	350,910,000	378,830,283	27,920,283
Legal reserves	471,747,252	530,499,856	58,752,604
Extraordinary reserves	1,575,052,383	1,944,197,399	369,145,016
Share premium	8,252	361,733	353,481
Other reserves	-	50,143	50,143
	2,397,717,887	2,853,939,414	456,221,527

December 31, 2015:	Historical values	Adjusted values	Equity inflation adjustment differences
Share capital	350,910,000	378,830,283	27,920,283
Legal reserves	438,410,802	497,163,406	58,752,604
Extraordinary reserves	1,117,388,159	1,486,533,175	369,145,016
Share premium	8,252	361,733	353,481
Other reserves	-	50,143	50,143
	1,906,717,213	2,362,938,740	456,221,527

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 June 30, 2016 and June 30, 2015. As of June 30, 2016 fair value change (positive) amounting to TL 961,698 net of deferred tax, (June 30, 2015 – TL 233,746) is shown in statement of other 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:

	2016	2015
January 1	(144,994,066)	(8,794,444)
Gains / (losses) on remeasuring available-for-sale financial assets	961,698	(233,746)
(Losses) / gains on remeasurements of defined benefit plans	(2,781,166)	754,569
Gains / (losses) on cash flow hedges	14,851,554	(73,139,858)
June 30	(131,961,980)	(81,413,479)

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

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Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

18. Revenue and cost of sales

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Export sales	6,056,817,943	2,962,942,404	4,703,178,572	2,379,159,217
Domestic sales	3,105,548,055	1,841,992,861	3,103,251,929	1,732,149,350
Other sales	36,343,018	21,803,458	35,627,309	19,061,063
Less: Discounts	(398,872,097)	(212,317,688)	(316,434,667)	(168,078,944)
	8,799,836,919	4,614,421,035	7,525,623,143	3,962,290,686

Units of vehicle sales:

	January 1 – June 30, 2016			April 1 – June 30, 2016		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	3,186	65,607	68,793	1,909	31,302	33,211
Transit	12,345	51,792	64,137	7,032	23,904	30,936
Transit Courier	16,453	17,661	34,114	9,680	8,578	18,258
Passenger vehicles	18,263	221	18,484	11,004	85	11,089
Cargo	2,552	293	2,845	1,636	158	1,794
New Transit Connect	1,470	2	1,472	938	2	940
Ranger	733	7	740	707	7	714
	55,002	135,583	190,585	32,906	64,036	96,942

	January 1 – June 30, 2015			April 1 – June 30, 2015		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit	12,532	47,352	59,884	6,169	23,570	29,739
Transit Custom	2,820	54,794	57,614	1,536	25,886	27,422
Transit Courier	16,140	13,230	29,370	8,879	6,512	15,391
Passenger vehicles	22,957	176	23,133	14,151	99	14,250
Cargo	4,460	261	4,721	2,329	125	2,454
New Transit Connect	1,359	4	1,363	970	-	970
Ranger	106	10	116	104	-	104
	60,374	115,827	176,201	34,138	56,192	90,330

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

18. Revenue and cost of sales (continued)

Summaries of cost of production as of June 30, 2016 and 2015 are as follows:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Raw material cost	(6,117,789,994)	(3,080,335,000)	(5,274,828,720)	(2,630,808,844)
Production overhead costs	(516,514,254)	(265,436,791)	(453,942,233)	(230,112,153)
Depreciation and amortization expenses (Note 10 &11)	(207,517,288)	(104,937,243)	(175,743,380)	(89,081,634)
Change in finished goods inventory	208,975,157	45,674,278	327,676,808	110,225,700
Total production cost	(6,632,846,379)	(3,405,034,756)	(5,576,837,525)	(2,839,776,931)
Cost of trade goods sold	(1,173,112,567)	(680,764,758)	(1,109,920,592)	(670,214,133)
Total cost of sales	(7,805,958,946)	(4,085,799,514)	(6,686,758,117)	(3,509,991,064)

19. Research and development expenses, marketing expenses, general administrative expenses

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Marketing expenses:				
Warranty expenses (Note 13)	(60,464,046)	(38,765,256)	(58,557,701)	(36,130,468)
Advertising expenses	(46,041,763)	(25,743,109)	(36,689,385)	(20,517,350)
Personnel expenses	(34,878,463)	(18,348,598)	(30,144,668)	(15,515,438)
Vehicle transportation expenses	(24,286,669)	(7,818,097)	(30,010,078)	(14,298,551)
Export sales	(5,958,265)	(2,729,315)	(6,391,915)	(2,548,969)
Dealer and service development expenses	(8,301,750)	(5,638,099)	(6,333,069)	(2,138,363)
Spare parts transportation and packaging expenses	(8,802,639)	(4,887,850)	(5,498,883)	(2,763,051)
Depreciation and amortization expense (Note 10 &11)	(1,340,754)	(680,667)	(1,228,895)	(639,805)
Other	(16,311,708)	(10,966,851)	(12,555,960)	(9,993,268)
	(206,386,057)	(115,577,842)	(187,410,554)	(104,545,263)
General administrative expenses:				
Personnel expenses	(44,537,279)	(22,430,969)	(35,300,216)	(20,536,086)
Grants and donations	(10,029,644)	(6,105,681)	(7,597,788)	(4,442,181)
Legal, consulting and auditing expenses	(6,689,913)	(5,868,337)	(8,637,515)	(4,702,374)
Depreciation and amortization expense (Note 10 &11)	(5,663,710)	(2,850,165)	(5,525,331)	(2,710,229)
Organization expenses	(5,178,770)	(4,459,553)	(1,934,014)	(1,232,542)
Travel expenses	(4,492,785)	(2,094,661)	(2,039,416)	(1,127,168)
New project administrative expenses	(4,491,397)	(2,612,693)	(1,600,587)	(1,219,297)
Duties, taxes and levies	(2,966,574)	(1,769,191)	(2,260,787)	(640,951)
Repair, maintenance and energy expenses	(1,476,347)	(780,555)	(5,819,737)	(1,257,719)
Other	(15,899,781)	(8,860,024)	(10,443,222)	(6,510,494)
	(101,426,200)	(57,831,829)	(81,158,613)	(44,379,041)

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

19. Research and development expenses, marketing expenses, general administrative expenses (continued)

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Research and development expenses				
Personnel expenses	(83.348.819)	(41.285.255)	(80.490.960)	(45.922.254)
Project costs	(44.601.748)	(23.775.321)	(29.911.889)	(20.021.031)
Mechanization expense	(18.885.989)	(9.785.875)	(12.584.276)	(5.715.455)
Depreciation and amortization expenses (Note 10 & 11)	(8.143.319)	(4.110.044)	(7.196.995)	(3.684.837)
Other	(1.265.110)	1.599.873	(1.459.861)	(1.360.454)
	(156.244.985)	(77.356.622)	(131.643.981)	(76.704.031)

20. Expenses by nature

The classification of expenses by nature for the year ended at June 30, 2016 and 2015 is as follows:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Raw material cost	(6,117,789,994)	(3,080,335,000)	(5,274,828,720)	(2,630,808,844)
Cost of commercial goods sold	(1,173,112,567)	(680,764,758)	(1,109,920,592)	(670,214,133)
Personnel expenses	(437,831,119)	(223,652,646)	(395,296,373)	(211,968,100)
Other operational expenses	(286,144,897)	(161,060,594)	(240,452,882)	(136,454,934)
Other overhead expenses	(241,447,697)	(123,848,968)	(204,454,905)	(100,282,583)
Depreciation and amortization expenses	(222,665,071)	(112,578,119)	(189,694,601)	(96,116,505)
Change in finished goods inventory	208,975,157	45,674,278	327,676,808	110,225,700
Finance costs	(206,214,592)	(141,839,978)	(153,110,564)	(92,592,149)
Expenses from operating activities	(96,166,409)	(42,298,522)	(65,508,369)	(35,263,857)
Expenses from investing activities	(1,153,331)	3,227	(127,200)	(22,666)
Total expenses	(8,573,550,520)	(4,520,701,080)	(7,305,717,398)	(3,863,498,071)

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

21. Other income/expenses from operating activities

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Other operating income and gains:				
Credit finance gains	49,458,159	25,188,145	37,835,954	22,554,502
Foreign exchange gains related to trade receivables and payables	9,527,329	4,114,632	26,786,389	17,049,688
Price difference and claim recovery	6,643,224	5,465,958	1,918,879	581,981
License fees income	4,389,755	2,140,794	7,749,548	5,878,649
Rent income	3,191,245	1,296,777	3,028,482	1,232,174
Commission income	2,607,105	1,616,990	2,359,908	1,405,807
Adjustments of prior period corporate tax	2,315,791	2,315,791	1,603,217	1,603,217
Other	9,067,884	6,122,401	10,754,643	7,886,359
	87,200,492	48,261,488	92,037,020	58,192,377
Other operating expenses and losses:				
Credit finance charge	(65,087,212)	(32,598,355)	(53,663,825)	(28,846,560)
Foreign exchange losses related to trade receivables and payables	(27,540,595)	(8,078,011)	(8,043,172)	(4,985,589)
Other	(3,538,602)	(1,622,156)	(3,801,372)	(1,431,708)
	(96,166,409)	(42,298,522)	(65,508,369)	(35,263,857)

22. Finance income

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Foreign exchange gains	151,656,582	118,696,161	73,435,943	45,248,218
Interest income	10,699,018	5,178,143	8,117,868	4,890,672
Other	-	-	-	(1,919,006)
	162,355,600	123,874,304	81,553,811	48,219,884

23. Finance costs

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Foreign exchange losses	(177,219,548)	(126,945,513)	(123,392,931)	(76,002,213)
Interest expenses	(21,327,141)	(10,468,757)	(27,714,653)	(14,586,956)
Other	(7,667,903)	(4,425,708)	(2,002,980)	(2,002,980)
	(206,214,592)	(141,839,978)	(153,110,564)	(92,592,149)

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Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

24. Tax assets and liabilities

Corporate Tax Law was amended by the Law No, 5520 dated June 13, 2006. Law No, 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from January 1, 2006. Accordingly, the corporate tax rate for the fiscal year 2016 is 20% (December 31, 2015 - 20%). Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc) and corporate income tax deductions (like research and development expenditures deduction). No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax, otherwise, dividends paid are subject to withholding tax at the rate of 15%, an increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporate tax quarterly at the rate of 20% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off other liabilities to the government.

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 exemptions in Corporate Tax Law regarding corporations. Those related 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 June 30, 2016 the Company used R&D deduction of TL 174,686,626 (June 30, 2015: TL 80,781,713) in return for the legal tax.

The decree on Government Subsidies for Incentives regulating investment incentives was published in the official gazette and became effective on 16 July 2009. Within the scope of this decree, the Company acquired a large-scaled investment incentive certificate subject investment is located in the 1. Region and has a 30% rate of contribution to investment for New Generation Transit and New Transit Custom. As of the statement of the financial position date, in the framework of the related investment incentive certificates, an investment expense of TL 559,294,788 (June 30, 2015: TL 559,294,788) was made and subject to document expenditures is completed.

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

24. Tax assets and liabilities (continued)

The decree on Government Subsidies for Incentives re-regulating investment incentives was published in the official gazette and became effective on June 19, 2012. The Company reevaluated its existing investments and within the scope of above mentioned new decree acquired a privileged investment incentive certificate amounting to TL 1,194,397,995 for the investment of its new generation Transit model and a privileged investment incentive certificate amounting to TL 697,393,702 for the new model Transit Courier investment in the light commercial vehicle segment. In addition to vehicle investments, in 2013, the Company acquired a privileged investment incentive certificate amounting to TL 187,378,832 for the production of new 6 and 4 cylinder engines for the produced Ford Cargo and Ford Transit vehicles. In December 2014, the Company received a privileged investment incentive amounting to TL 331,362,274 and with a 40% rate of contribution to investment for the expanding investment for the production of Euro 6 emission trucks which will be put into use in the year 2018 in the Eskişehir İnönü plant. Additionally, the Company has obtained primary investment incentive certificate at an amount of TL 849,160,000 because of replacement and factory modernization investments which shall be made in following periods related to Ford Transit, Ford Transit Courier and Ford Transit Custom models whose production is still going on in during 2016. The investments will benefit from the 5. Region contributions according to the new incentive regulation and has a 40% rate of contribution to investment. Since the Privileged Investment Incentive Certificate amounting to TL 1,194,397,995 received for the New Generation Transit expenses exceeds TL 1 billion, the Company can benefit from the additional 10% rate of contribution to investment.

As of the date of statement of financial position, the investment expenditures amounting to TL 2,079,711,870 (June 30, 2015: TL 1,854,773,485) was made in the framework of the related new investment incentive certificates and the Company utilized discounted corporate taxation amounting to TL 53,264,447 (June 30, 2015: TL 36,464,953) in the current year and this amount has been deducted from the total deferred tax asset.

The Company’s net tax position as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
Current year corporate tax expense	15,155,143	8,960,182
Prepaid tax and withholding	(10,735,018)	(8,960,182)
Current years’ profit tax liability	4,420,125	-

The taxation on income for the periods ended June 30, 2016 and 2015 are as follows.

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Current year corporate tax expense	(15,155,143)	(8,948,453)	(10,536,170)	(3,695,422)
Current year tax effect of cash flow hedge	3,712,888	3,388,272	(18,324,839)	(17,625,813)
Deferred tax (loss) / income	(719,376)	334,797	41,400,150	(10,029,398)
	(12,161,631)	(5,225,384)	12,539,141	(31,350,633)

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

24. Tax assets and liabilities (continued)

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at June 30, 2016 and 2015 and current tax ratio based on income before tax is as follows:

	June 30, 2016	June 30, 2015
Income before tax:	476,264,289	393,965,240
Effective tax rate	20%	20%
Current year tax expense	(95,252,858)	(78,793,048)
R&D deduction	34,937,325	16,156,343
Investment incentive exemption	57,168,011	74,489,359
Other temporary differences	(9,014,109)	686,487
	(12,161,631)	12,539,141

The Company calculates deferred tax assets and liabilities from the temporary differences identified during the evaluation of the differences between the statement of financial position prepared under TFRS and financial statements prepared for tax purposes.

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at June 30, 2016 and December 31, 2015 using the current enacted tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Deferred tax assets:				
Investment incentive tax asset	3,915,559,483	3,050,215,379	722,186,540	718,282,976
Expense accruals and other provisions	132,971,071	91,120,092	26,594,214	18,224,017
Employee benefits provision	94,581,960	87,579,319	18,916,392	17,515,863
Warranty expense provision	111,046,986	101,614,941	22,209,397	20,322,988
Inventories	36,846,823	37,140,141	7,369,366	7,428,029
			797,275,909	781,773,873
Deferred tax liabilities:				
Tangible and intangible assets	1,429,315,722	1,334,003,727	(285,863,144)	(266,800,745)
Income accruals and other	44,772,673	62,200,994	(8,954,535)	(12,440,198)
			(294,817,679)	(279,240,943)
Net deferred tax asset			502,458,230	502,532,930

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

24. Tax assets and liabilities (continued)

Deferred tax movements are as follows:

	January 1, 2016	Charged to statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	June 30, 2016
Deferred tax liabilities:				
Tangible and intangible assets	(266,800,745)	(19,062,399)	-	(285,863,144)
Income accruals and other	(12,440,198)	3,536,279	(50,616)	(8,954,535)
Deferred tax assets:				
Investment incentive tax asset	718,282,976	3,903,564	-	722,186,540
Expense accruals and other	18,224,017	8,370,197	-	26,594,214
Provision for employee benefits	17,515,863	705,237	695,292	18,916,392
Warranty expense provision	20,322,988	1,886,409	-	22,209,397
Inventories	7,428,029	(58,663)	-	7,369,366
Deferred tax asset, net	502,532,930	(719,376)	644,676	502,458,230

	January 1, 2015	Charged to statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	June 30, 2015
Deferred tax liabilities:				
Tangible and intangible assets	(222,297,918)	(9,868,660)	-	(232,166,578)
Income accruals and other	(6,501,568)	1,458,781	12,302	(5,030,485)
Deferred tax assets:				
Investment incentive tax asset	665,294,714	38,024,405	-	703,319,119
Expense accruals and other	12,111,313	7,169,765	(196,292)	19,084,786
Provision for employee benefits	18,454,610	(50,404)	(188,642)	18,215,564
Warranty expense provision	12,216,833	3,958,482	-	16,175,315
Inventories	4,238,435	707,781	-	4,946,216
Deferred tax asset, net	483,516,419	41,400,150	(372,632)	524,543,937

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Earnings per share

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Net income for the year (TL)	464,102,658	261,052,161	406,504,381	174,322,907
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	1,32 Kr	0,74 Kr	1,16 Kr	0,50 Kr

26. Transactions and balances with related parties

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

The related party balances at June 30, 2016 and December 31, 2015 and the transactions with related parties during the year are as follows:

a) Receivables from related parties:

i) Trade receivable from related parties

	June 30, 2016	December 31, 2015
Due from shareholders:		
Ford Motor Company and its subsidiaries	888,470,240	607,913,100
	888,470,240	607,913,100
Due from group companies (*):		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	367,133,222	398,883,026
Other	-	1,189,090
	367,133,222	400,072,116
Less: Unearned credit finance income	(2,883,354)	(4,443,648)
	1,252,720,108	1,003,541,568

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

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

26. Transactions and balances with related parties (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. 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 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:

	June 30, 2016	December 31, 2015
Due to shareholders:		
Ford Motor Company and its subsidiaries	531,973,472	494,737,376
	531,973,472	494,737,376
Due to group companies (*):		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	46,065,357	28,142,499
Ram Dış Ticaret A.Ş.	24,175,515	25,937,221
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	11,335,355	4,364,843
Setur Servis Turistik A.Ş.	7,066,570	5,550,939
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	7,011,520	13,648,434
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2,492,585	2,657,774
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	1,978,208	2,750,112
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,277,716	1,116,824
Ram Sigorta Aracılık Hizmetleri A.Ş.	1,050,597	306,518
Other	2,684,119	2,064,003
	105,137,542	86,539,167
Less: Unearned credit finance expense	(782,015)	(566,455)
	636,328,999	580,710,088

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

ii) Other payables to related parties

	June 30, 2016	December 31, 2015
Koç Holding A.Ş.	3,424,434	8,374,053
Koç Finansman A.Ş.	-	9,088,850
Yapı ve Kredi Bankası A.Ş.	-	2,450,054
	3,424,434	19,912,957

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

26. Transactions and balances with related parties (continued)

c) Sales to related parties:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Ford Motor Company (*)	5,987,899,373	2,921,106,158	4,661,282,177	2,356,030,076
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	747,138,446	448,440,171	884,693,975	509,316,072
Other	1,025,867	990,369	3,233,018	2,137,400
	6,736,063,686	3,370,536,698	5,549,209,170	2,867,483,548
Less: Financial income from credit sales	(13,670,949)	(7,932,954)	(10,581,177)	(6,620,104)
	6,722,392,737	3,362,603,744	5,538,627,993	2,860,863,444

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

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

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

	January 1 – June 30, 2016			Total
	Material	Service	Fixed Assets	
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	5,436,623	108,661,196	65,050	114,162,869
Ram Dış Ticaret A.Ş.	48,689,913	-	-	48,689,913
Setur Servis Turistik A.Ş.	-	14,854,417	-	14,854,417
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	4,734,171	9,355,131	14,089,302
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	10,816,900	1,278,370	12,095,270
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	8,788,999	-	8,788,999
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	7,746,450	-	-	7,746,450
Koç Holding A.Ş. (**)	-	5,594,055	-	5,594,055
Koçtaş Yapı Marketleri Ticaret A.Ş.	4,697,097	-	-	4,697,097
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	4,673,063	-	-	4,673,063
Opet Petrolcülük A.Ş.	1,786,746	-	-	1,786,746
Tanı Pazarlama İlet.Hiz.A.Ş.	-	1,114,872	-	1,114,872
Other	31,325	2,918,418	-	2,949,743
	73,061,217	157,483,028	10,698,551	241,242,796
Less: Financial expense from credit purchases	(1,399,145)	-	-	(1,399,145)
	71,662,072	157,483,028	10,698,551	239,843,651

(*) Contains paid and accrued premium amounts for the interim periods ended June 30, 2016 and 2015 within the context of insurance policies signed with insurance Companies through the agency of Ram Sigorta Aracılık Hizmetleri A.Ş.

(**) It includes remuneration of expenses, occurred related to companies provided services in care of Koç Holding A.Ş. including personnel and key management expenses in acknowledgement of services such as finance, law, tax and key management given to companies in the company structure of our main partner Koç Holding A.Ş. which are billed to our Company as a result of its distribution in the framework of “11-Intra-group Services” of General Communique numbered 1 on Distribution of Hidden Income through Transfer Pricing.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

26. Transactions and balances with related parties (continued)

	April 1 – June 30, 2016			
	Material	Service	Fixed assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	2,495,021	62,687,798	49,290	65,232,109
Ram Dış Ticaret A.Ş.	23,159,228	-	-	23,159,228
Setur Servis Turistik A.Ş.	-	8,889,945	-	8,889,945
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	3,898,156	-	-	3,898,156
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	2,988,781	7,809,558	10,798,339
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	5,503,726	-	5,503,726
Koç Holding A.Ş. (**)	-	2,815,422	-	2,815,422
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2,391,346	-	-	2,391,346
Koçtaş Yapı Marketleri Ticaret A.Ş.	2,442,528	-	-	2,442,528
Opet Petrolcülük A.Ş.	932,159	-	-	932,159
Tanı Pazarlama İlet.Hiz.A.Ş.	-	577,648	-	577,648
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	10,736,111	829,330	11,565,441
Other	11,390	1,596,119	-	1,607,509
	35,329,828	95,795,550	8,688,178	139,813,556
Less: Financial expense from credit purchases	(657,823)	-	-	(657,823)
	34,672,005	95,795,550	8,688,178	139,155,733
January 1 – June 30, 2015				
	Material	Service	Fixed assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	4,050,387	94,680,451	17,516	98,748,354
Ram Dış Ticaret A.Ş.	63,690,466	-	-	63,690,466
Setur Servis Turistik A.Ş.	-	10,331,972	-	10,331,972
Ark İnşaat Sanayi ve Ticaret A.Ş.	-	-	10,200,000	10,200,000
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	8,868,384	-	-	8,868,384
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	7,423,999	-	7,423,999
Koç Holding A.Ş. (**)	-	5,195,662	-	5,195,662
Koçtaş Yapı Marketleri Ticaret A.Ş.	3,919,515	-	2,600	3,922,115
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3,916,846	-	-	3,916,846
Opet Petrolcülük A.Ş.	3,125,533	-	-	3,125,533
Tanı Pazarlama İlet.Hiz.A.Ş.	-	1,013,238	-	1,013,238
Other	1,624,383	5,733,382	13,111,721	20,469,486
	89,195,514	124,378,704	23,331,837	236,906,055
Less: Financial expense from credit purchases	(1,628,302)	-	-	(1,628,302)
	87,567,212	124,378,704	23,331,837	235,277,753

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

26. Transactions and balances with related parties (continued)

	April 1 – June 30, 2015			
	Material	Service	Fixed assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	1,870,490	51,209,350	3,340	53,083,180
Ram Dış Ticaret A.Ş.	32,218,668	-	-	32,218,668
Setur Servis Turistik A.Ş.	-	6,399,718	-	6,399,718
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	5,993,799	-	5,993,799
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	4,599,888	-	-	4,599,888
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2,760,782	-	-	2,760,782
Koç Holding A.Ş. (**)	-	2,641,448	-	2,641,448
Koçtaş Yapı Marketleri Ticaret A.Ş.	2,143,287	-	2,600	2,145,887
Opet Petrolcülük A.Ş.	1,877,792	-	-	1,877,792
Other	535,502	492,050	3,526,157	4,553,709
	46,006,409	66,736,365	3,532,097	116,274,871
Less: Financial expense from credit purchases	(897,335)	-	-	(897,335)
	45,109,074	66,736,365	3,532,097	115,377,536

Material, vehicle and service purchases from abroad:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Ford Motor Company and its subsidiaries	3,947,068,378	2,099,475,498	3,312,026,147	1,771,966,787

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

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
	55,299,282	31,865,756	49,662,222	26,633,860

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

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
	4,389,755	2,140,794	7,749,548	5,878,649

g) Donations to Koç Group foundations, included in general administrative expenses:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
	9,530,801	5,718,219	7,420,688	4,315,631

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

26. Transactions and balances with related parties (continued)

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

Deposits in related banks:	June 30, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş.		
- Banks - foreign currency time deposits	103,185,486	187,918,693
- Banks - TL demand deposits	29,282,437	21,817,638
- Banks - foreign currency demand deposits	593,639	2,765,023
- Banks - TL time deposits	-	50,075,956
	133,061,562	262,577,310

i) Commission income:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Koç Finansman A.Ş.	1,857,511	1,208,716	1,253,714	711,306
Yapı ve Kredi Bankası A.Ş.	744,312	408,275	1,082,222	670,529
	2,601,823	1,616,991	2,335,936	1,381,835

i) Commission expense:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Koç Finansman A.Ş.	38,644,167	28,796,004	21,239,795	13,846,047
Yapı ve Kredi Bankası A.Ş.	8,420,140	6,140,418	7,121,552	5,381,119
	47,064,307	34,936,422	28,361,347	19,227,166

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

j) Interest income:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Yapı ve Kredi Bankası A.Ş.	2,268,177	580,300	1,445,201	506,215

k) Dividend income:

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Otokar Otomotiv ve Savunma Sanayi A.Ş.	421,798	421,798	468,464	468,464

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

26. Transactions and balances with related parties (continued)

I) Compensation of key management personnel:

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 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 June 30, 2016 was TL 7,533,796 (June 30, 2015: TL 6,412,328).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

27. Financial instruments and financial risk management

The table below summarizes the Company's exposure to foreign currency exchange rate risk at June 30, 2016 and December 31, 2015. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

June 30, 2016

	TL equivalent (Functional currency)	USD	Euro	GBP
1. Trade receivables	919,191,772	18,970,755	269,722,256	-
2. Monetary financials assets (including cash and cash equivalents)	523,648,406	40,061,036	127,234,291	4,712
3. Other	121,985,372	1,339,075	36,856,837	1,700
4. Current assets (1 + 2 + 3)	1,564,825,550	60,370,866	433,813,384	6,412
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	1,564,825,550	60,370,866	433,813,384	6,412
8. Trade payables	601,521,759	17,793,358	171,580,372	57,574
9. Financial liabilities (*)	1,486,944,919	40,000,000	427,911,908	-
10. Other monetary liabilities	76,718,646	482,257	23,341,260	136,587
11. Short term liabilities (8 + 9 + 10)	2,165,185,324	58,275,615	622,833,540	194,161
12. Financial liabilities (*)	1,371,117,266	-	427,885,803	-
13. Long term liabilities (12)	1,371,117,266	-	427,885,803	-
14. Total liabilities (11 + 13)	3,536,302,590	58,275,615	1,050,719,343	194,161
15. Net foreign currency assets / (liabilities) position (7 - 14)	(1,971,477,040)	2,095,251	(616,905,959)	(187,749)
16. Net monetary foreign currency assets / (liabilities) (1 + 2 + 5 - 8 - 9 - 10 - 12)	(2,093,462,412)	756,176	(653,762,796)	(189,449)

(*) The Company's net foreign exchange position is mainly due to long term Euro denominated loans obtained to fund its investments. The Company is hedged for the foreign currency exchange risk of a portion of those Euro denominated loans amounting to TL 1,907,650,027 by export agreements signed with Ford Motor Company. (December 31, 2015 TL 1,799,243,241).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

27. Financial instruments and financial risk management (continued)

December 31, 2015

	TL equivalent (Functional currency)	USD	Euro	GBP
1. Trade receivables	639,702,631	19,887,088	183,119,000	-
2. Monetary financial assets (including cash and cash equivalents)	710,789,723	9,847,089	214,628,526	35,976
3. Other	149,260,400	851,460	46,001,808	141,686
4. Current assets (1 + 2 + 3)	1,499,752,754	30,585,637	443,749,334	177,662
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	1,499,752,754	30,585,637	443,749,334	177,662
8. Trade payables	643,244,457	19,645,101	183,652,520	592,953
9. Financial liabilities (*)	1,259,731,319	-	396,441,125	-
10. Other monetary liabilities	54,924,629	272,973	17,020,104	11,127
11. Short term liabilities (8 + 9 + 10)	1,957,900,405	19,918,074	597,113,749	604,080
12. Financial liabilities (*)	1,301,034,627	-	409,439,397	-
13. Long term liabilities (12)	1,301,034,627	-	409,439,397	-
14. Total liabilities (11 + 13)	3,258,935,032	19,918,074	1,006,553,146	604,080
15. Net foreign currency assets / (liabilities) position (7 - 14)	(1,759,182,278)	10,667,563	(562,803,812)	(426,418)
16. Net monetary foreign currency assets / (liabilities) (1 + 2 + 5 - 8 - 9 - 10 - 12)	(1,908,442,678)	9,816,103	(608,805,620)	(568,104)

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

27. Financial instruments and financial risk management (continued)

Foreign exchange risk

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

June 30, 2016

	Profit/(loss) before taxation	
Appreciation in foreign currency / depreciation in foreign currency		
	Increase by 10%	Decrease by 10%
Change in USD against TL		
US Dollar net (liabilities) / assets	606,282	(606,282)
US Dollar net hedged amount	-	-
US Dollar net- (gain) / (loss)	606,282	(606,282)
Change in Euro against TL		
Euro net (liabilities) / assets	(197,681,346)	197,681,346
Euro net hedged amount	190,985,272	(190,985,272)
Euro net- gain / (loss)	(6,696,074)	6,696,074
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities)/assets	(72,640)	72,640
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net -(loss)/gain	(72,640)	72,640

December 31, 2015

	Profit/(loss) before taxation	
Appreciation in foreign currency / depreciation in foreign currency		
	Increase by 10%	Decrease by 10%
Change in USD against TL		
US Dollar net (liabilities) / assets	3,101,701	(3,101,701)
US Dollar net hedged amount	-	-
US Dollar net- (loss) / gain	3,101,701	(3,101,701)
Change in Euro against TL		
Euro net (liabilities) / assets	(178,836,539)	178,836,539
Euro net hedged amount	179,924,324	(179,924,324)
Euro net- (loss) / gain	1,087,785	(1,087,785)
Change in other foreign currency against TL		
Other foreign currency denominated net assets/(liabilities)	(183,389)	183,389
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net -gain/(loss)	(183,389)	183,389

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

27. Financial instruments and financial risk management (continued)

The comparative amounts for total export and import amounts for the year ended June 30, 2016 and 2015 are as follows:

	June 30, 2016	June 30, 2015
Total export amount	6,056,817,943	4,703,178,572
Total import amount	4,171,178,666	3,572,785,609

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

Interest rate risk

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

	June 30, 2016	June 30, 2015
Fixed interest rate financial instruments		
Financial assets	754,353,702	943,904,919
Financial liabilities	1,541,981,370	1,200,477,184
Floating interest rate financial instruments		
Financial liabilities	1,322,681,746	1,350,982,522

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 TL 2,701,654 at June 30, 2016 (December 31, 2015 – TL 3,106,241) due to higher/lower interest expense.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

27. Financial instruments and financial risk management (continued)

Liquidity risk

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

June 30, 2016	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	2,873,562,475	2,947,223,830	465,003,433	1,043,127,883	1,357,776,962	81,315,552
Trade payables						
- Related party	636,328,999	637,111,014	637,111,014	-	-	-
- Other	1,534,262,019	1,543,752,800	1,543,752,800	-	-	-
Other liabilities						
- Related party	3,424,434	3,424,434	3,424,434	-	-	-
- Other	68,427,119	68,427,119	68,427,119	-	-	-

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

27. Financial instruments and financial risk management (continued)

December 31, 2015	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	2,560,765,946	2,647,594,767	268,800,935	999,393,360	1,324,541,145	54,859,327
Trade payables						
- Related party	580,710,088	581,276,543	581,276,543	-	-	-
- Other	1,732,940,277	1,743,208,811	1,743,208,811	-	-	-
Other liabilities						
- Related party	19,912,957	19,912,957	19,912,957	-	-	-
- Other	47,709,326	47,709,326	47,709,326	-	-	-

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

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 June 30, 2016 and December 31, 2015, the Company’s hierarchy table for its assets and liabilities recorded at fair value are as follows:

June 30, 2016

	Level1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Financial asset available-for-sale -Otokar	13,638,120	-	-
Total assets	13,638,120	-	-
Liabilities at fair value			
Cash flow hedge swap transaction	-	-	-
Total liabilities	-	-	-

(*) 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).

December 31, 2015

	Level1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Financial asset available-for-sale -Otokar	12,625,805	-	-
Total assets	12,625,805	-	-
Liabilities at fair value			
Cash flow hedge swap transaction	-	-	-
Total liabilities	-	-	-

(*) 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).

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

28. Derivative financial instruments

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 April 1, 2013 to December 2021 with long term financial borrowings.

	June 30, 2016	December 31, 2015
Cash flow hedge reserve:		
Amount recognized in other comprehensive income	14,310,833	213,470,771
Amount recycled from other comprehensive income to statement of profit or loss	(32,875,275)	(27,694,905)
	(18,564,442)	185,775,866

29. Investment activity income/expenses

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Investment activity income :				
Dividend income	421,798	421,798	468,664	468,664
	421,798	421,798	468,664	468,664
Investment activity expenses :				
Loss on sales of property, plant and equipment	(1,153,331)	3,227	(127,200)	(22,666)
	(1,153,331)	3,227	(127,200)	(22,666)

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

30. Deferred income

	June 30, 2016	December 31, 2015
Advances taken	5,705,638	7,548,188
	5,705,638	7,548,188

	June 30, 2016	December 31, 2015
Long term deferred income	11,143,105	6,983,689
	11,143,105	6,983,689

31. Other long term liabilities

	June 30, 2016	December 31, 2015
Other long term liabilities (*)	65,662,358	47,328,044
	65,662,358	47,328,044

(*) The Company makes a part of its fleet truck sales agreement with buyback commitments and sales made in this scope are monitored under “Other Long Term Liabilities”. The buyback commitments are 3 years on average.

32. Government incentives and grants

The Company has completed its New Transit Custom factory investment amounting to TL 559,294,788 which has 30% contribution rate to investment in scope of Council of Ministers’ Decision numbered 2009/15199 and benefits from related incentive in tax calculations.

Additionally, the Company reevaluated its existing investments within the scope of the decree on Government Subsidies for Incentives re-regulating investment incentives, which was published in the official gazette in 2013 and became effective on 19 June 2012, and in order to benefit from privileged investment incentive regarding new decree, acquired a privileged investment incentive certificate amounting to TL 1,194,397,995 for the investment of its new generation Transit model and a privileged investment incentive certificate amounting to TL 697,393,702 for the new model Transit Courier investment in the light commercial vehicle segment. In addition to vehicle investments, in 2013, the Company acquired a privileged investment incentive certificate amounting to TL 187,378,832 for the production of new 6 and 4 cylinder engines for the produced Ford Cargo and Ford Transit vehicles. Subject investment incentives has a 40% rate of contribution to investment. Since the Privileged Investment Incentive Certificate amounting to TL 1,194,397,995 received for the New Generation Transit expenses exceeds TL 1 billion, the Company can benefit from the additional 10% rate of contribution to investment.

In December 2014, the Company received a privileged investment incentive amounting to TL 331,362,274 and with a 40% rate of contribution to investment for the expanding investment for the production of Euro 6 emission trucks which will be put into use in the year 2018 in the Eskişehir İnönü plant.

(Convenience translation of financial statements originally issued in Turkish – See Note 2.6)

Ford Otomotiv Sanayi A.Ş.

Notes to financial statement for the period ended June 30, 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

32. Government incentives and grants (continued)

Additionally, the Company has obtained primary investment incentive certificate at an amount of TL 849,160,000 because of replacement and factory modernization investments which shall be made in following periods related to Ford Transit, Ford Transit Courier and Ford Transit Custom models whose production is still going on in during 2016. The aforementioned investments shall benefit from 5th Region supports in accordance with new incentives legislation.

33. Subsequent events

Mr. William Richard Periam, who has been acting as Deputy General Manager, will take a new role within Ford Europe organization and leave the Company as of August 01, 2016. Ms. Lisa Tresigne King is assigned as Deputy General Manager to replace Mr. William Richard Periam effective from August 01, 2016.

34. Disclosure of other matters

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