

FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS FOR THE PERIOD
1 JANUARY - 31 MARCH 2022**

(ORIGINALLY ISSUED IN TURKISH)

FORD OTOMOTİV SANAYİ A.Ş.

FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2022

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FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022 AND 31 DECEMBER 2021

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

	Notes	Current period not audited 31 March 2022	Prior period audited 31 December 2021
Assets			
Current assets		37,503,027	32,813,852
Cash and cash equivalents	4	15,174,998	14,173,931
Trade receivables			
- Due from related parties	26	7,307,290	7,914,177
- Due from third parties	7	3,804,491	3,492,571
Other receivables			
- Due from third parties	8	14,925	820
Inventories	9	9,033,862	5,269,306
Prepaid expenses	12	342,284	303,696
Other current assets	16	1,818,379	1,659,351
Assets related to current period tax	24	6,798	-
Non-current assets		12,530,786	9,979,001
Financial assets	5	60,050	49,913
Trade receivables			
- Due from third parties	7	34,087	37,579
Property, plant and equipment	10	5,359,485	5,149,083
Intangible assets	11	1,783,258	1,486,777
Right of use assets	32	58,833	68,767
Prepaid expenses	12	2,871,283	1,421,793
Deferred tax assets	24	2,272,083	1,715,971
Investments in associates and joint ventures	34	13,584	12,959
Derivative financial instruments	28	78,123	36,159
Total assets		50,033,813	42,792,853

Financial statements for the period ended 1 January - 31 March 2022 were approved for issue by the Board of Directors on 27 April 2022.

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022 AND 31 DECEMBER 2021

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

	Notes	Current period not audited 31 March 2022	Prior period audited 31 December 2021
Liabilities			
Current liabilities		26,227,573	20,782,144
Short-term borrowings			
- Bank borrowings	6	7,082,354	4,473,375
Short-term portion of long-term borrowings			
- Bank borrowings	6	3,582,594	3,733,404
- Lease liabilities	6	47,567	50,140
Trade payables			
- Due to related parties	26	3,296,920	2,106,450
- Due to third parties	7	10,903,081	9,272,218
Other payables			
- Due to related parties	26	-	38,246
- Due to third parties	8	490,262	220,755
Deferred income	30	73,948	64,730
Short-term provisions			
- Other provisions	13	403,001	390,161
Employee benefit liabilities	15	347,846	419,560
Current tax liabilities	24	-	13,105
Non-current liabilities		15,511,188	11,862,171
Long-term borrowings			
- Bank borrowings	6	14,311,046	10,749,405
- Lease liabilities	6	43,064	49,903
Long-term provisions			
- Provision for employment termination benefits	15	617,642	568,497
- Other provisions	13	440,894	416,018
Deferred income	30	84,413	63,183
Other non-current liabilities	31	14,129	14,129
Derivative financial liabilities	28	-	1,036
Equity		8,295,052	10,148,538
Paid-in capital		350,910	350,910
Inflation adjustments on capital		27,920	27,920
Share premium		8	8
Other comprehensive income/(loss) not to be reclassified under profit or loss			
- Losses on remeasurements of defined benefit plans		(112,874)	(125,723)
- Gains from financial assets measured at fair value through other comprehensive income		56,119	46,489
Other comprehensive income/(loss) to be reclassified in profit or loss			
- Losses on cash flow hedges		(3,307,147)	(3,191,233)
Restricted reserves		1,220,744	766,316
Retained earnings		7,257,593	3,472,846
Net profit for the period		2,801,779	8,801,005
Total liabilities and equity		50,033,813	42,792,853

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE PERIODS ENDED 31 MARCH 2022 AND 2021

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

	Notes	Current period not audited 1 January- 31 March 2022	Prior period not audited 1 January- 31 March 2021
Continuing operations			
Revenue	18	27,876,425	16,254,142
Cost of sales	18	(24,157,311)	(14,186,069)
Gross profit		3,719,114	2,068,073
Marketing expenses	19	(480,099)	(209,224)
General administrative expenses	19	(285,627)	(170,047)
Research and development expenses	19	(276,715)	(129,519)
Other income from operating activities	21	808,270	381,260
Other expenses from operating activities	21	(362,161)	(219,887)
Profit from operating activities		3,122,782	1,720,656
Income from investing activities	29	3,601	2,464
Expenses from investing activities	29	(16,226)	-
Operating income before financial income/(expense)		3,110,157	1,723,120
Financial income	22	1,527,538	770,574
Financial expenses	23	(2,352,474)	(676,515)
Profit from continuing operations before tax		2,285,221	1,817,179
Tax income/(expense) from continuing operations		516,558	2,195
Tax expenses for the period	24	(32,280)	(12,901)
Deferred tax income/(expense)	24	548,838	15,096
Net profit		2,801,779	1,819,374
Earnings per share with a nominal value Kr	25	7.98 Kr	5.18 Kr

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

FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 MARCH 2022 AND 2021**

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

	Notes	Current period not audited 1 January- 31 March 2022	Prior period not audited 1 January- 31 March 2021
Net profit		2,801,779	1,819,374
Other comprehensive income/(expense)			
Other comprehensive income not to be reclassified to profit or loss			
Gains/(losses) on remeasurements of defined benefit plans	17	16,061	4,061
Gains/(losses) from financial assets measured at fair value through other comprehensive income	17	10,137	6,257
Other comprehensive income taxes not to be reclassified to profit or loss			
Taxes relating to remeasurements of defined benefit plans	17	(3,212)	(812)
Taxes relating to gains/(losses) from financial assets measured at fair value through other comprehensive income	17	(507)	(313)
Other comprehensive income to be reclassified to profit or loss			
Other comprehensive income relating to cash flow hedges	17	(126,906)	(375,104)
Other comprehensive income taxes to be reclassified to profit or loss			
Taxes relating to cash flow hedges	17	10,992	72,598
Other comprehensive loss		(93,435)	(293,313)
Total comprehensive income		2,708,344	1,526,061

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS 31 MARCH 2022 AND 2021

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

	Paid in capital	Inflation adjustments on capital	Share premium	Other comprehensive income not to be reclassified in profit or loss	Other comprehensive income to be reclassified in profit or loss	Cash flow hedge reserve	Restricted reserves	Retained earnings		Total equity
				Gain/(losses) from financial assets measured at fair value through other comprehensive income	Gains/(losses) on remeasurements defined benefit plans			Accumulated profit	Net profit	
Balances at 1 January 2021	350,910	27,920	8	41,600	(18,359)	(1,431,512)	410,493	3,467,929	4,194,913	7,043,902
Impact of correction of errors	-	-	-	-	-	-	-	(268,800)	-	(268,800)
Revised Balances at 1 January 2021	350,910	27,920	8	41,600	(18,359)	(1,431,512)	410,493	3,199,129	4,194,913	6,775,102
Profit for the period	-	-	-	-	-	-	-	-	1,819,374	1,819,374
Other comprehensive income/(loss)	-	-	-	5,944	3,249	(302,506)	-	-	-	(293,313)
Total comprehensive income	-	-	-	5,944	3,249	(302,506)	-	-	1,819,374	1,526,061
Transfers	-	-	-	-	-	-	223,530	3,971,383	(4,194,913)	-
Dividends (Note 17)	-	-	-	-	-	-	-	(2,252,842)	-	(2,252,842)
Balances at 31 March 2021	350,910	27,920	8	47,544	(15,110)	(1,734,018)	634,023	4,917,670	1,819,374	6,048,321
Balances at 1 January 2022	350,910	27,920	8	46,489	(125,723)	(3,191,233)	766,316	3,472,846	8,801,005	10,148,538
Profit for the period	-	-	-	-	-	-	-	-	2,801,779	2,801,779
Other comprehensive income/(loss)	-	-	-	9,630	12,849	(115,914)	-	-	-	(93,435)
Total comprehensive income	-	-	-	9,630	12,849	(115,914)	-	-	2,801,779	2,708,344
Transfers	-	-	-	-	-	-	454,428	8,346,577	(8,801,005)	-
Dividends (Note 17)	-	-	-	-	-	-	-	(4,561,830)	-	(4,561,830)
Balances at 31 March 2022	350,910	27,920	8	56,119	(112,874)	(3,307,147)	1,220,744	7,257,593	2,801,779	8,295,052

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED 31 MARCH 2022 AND 2021

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

	Notes	Current period not audited 31 March 2022	Previous period not audited 31 March 2021
Cash flows generated from/ (used in) operating activities		3,961,918	1,338,394
Net profit for the period		2,801,779	1,819,374
Adjustments to reconcile profit or loss		2,110,827	503,857
Adjustments for depreciation and amortisation expense	10,11,32	294,279	252,357
Adjustments for impairment loss of inventories	9	16,924	(3,683)
Adjustments for provisions related with employee benefits		4,404	(84,720)
Adjustments for lawsuit and/or penalty provisions	13	(6,108)	13,544
Adjustments for warranty provisions	13	201,117	66,589
Adjustments for other provisions		(32,370)	(54,279)
Adjustments for dividend income	29	(2,929)	(2,343)
Adjustments for interest income	22	(251,563)	(300,672)
Adjustments for interest expense	23	114,793	59,788
Adjustments for tax expenses	24	(516,558)	(2,195)
Adjustments for unearned financing income	21	(112,933)	(95,066)
Adjustments for deferred financing expense	21	229,256	177,084
Adjustments for loss on sales of property, plant, and equipment	29	15,554	(121)
Other adjustments for which cash effects are investing or financing cash flow		2,156,961	477,574
Changes in working capital		(637,294)	(778,036)
Decrease/(increase) in trade receivable		306,039	(207,100)
(Increase)/decrease in inventories		(3,781,480)	(903,822)
(Increase)/decrease in prepaid expenses		(35,948)	35,994
Increase/(decrease) in trade payable		2,822,806	109,018
(Increase)/decrease in other assets		(210,420)	53,635
Increase/(decrease) in other liabilities		261,709	134,239
Cash flows generated from operations		4,275,312	1,545,195
Interest paid		(236,836)	(188,844)
Interest received		111,460	86,744
Payments related with provisions for employee benefits	15	(10,912)	(5,462)
Payments related with other provisions		(124,923)	(47,386)
Taxes paid		(52,183)	(51,853)
Cash flows used in investing activities		(2,256,608)	(327,493)
Proceeds from sales of property, plant and equipment		1,338	5,794
Purchase of property, plant and equipment		(453,408)	(167,176)
Purchase of intangible assets		(354,712)	(97,299)
Cash advances given and payables		(1,452,130)	(71,155)
Dividends received	29	2,929	2,343
Cash outflows from capital increase/share purchase of subsidiaries		(625)	-
Cash flows (used in)/generated from financing activities		(642,016)	107,402
Proceeds from borrowings	6	7,114,313	2,382,360
Cash outflows related to borrowings	6	(3,444,709)	(260,035)
Dividends paid	17	(4,561,830)	(2,252,842)
Interest paid		(45,265)	(36,911)
Interest received		313,790	286,573
Cash outflows on debt payments from leasing agreements	6	(18,315)	(11,743)
Net (decrease)/increase in cash and cash equivalents		1,063,294	1,118,303
Cash and cash equivalents at the beginning of the period		14,106,240	8,073,629
Cash and cash equivalents at the end of the period	4	15,169,534	9,191,932

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

1. ORGANIZATION AND NATURE OF THE OPERATIONS

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

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

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

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

	Average		Period End	
	2022 March	2021 March	2022 March	2021 December
Hourly	10,498	9,416	10,458	10,261
Salaried	3,496	3,020	3,534	3,463
	13,994	12,436	13,992	13,724

Research and development operations which are also subject to service export is conducted with 1,366 employees in Sancaktepe branch, conducted with 242 employees in R&D centre in Kocaeli plant, conducted with 122 employees in R&D centre in Eskişehir İnönü plant, and 18 employees in R&D ODTU Teknokent Office in totally 1,748 employees as of 31 March 2022 (31 December 2021: 1,688).

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

Financial reporting standards

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

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

The financial statements are presented in accordance with “Announcement regarding with TAS Taxonomy” which was published on 15 April 2019 by POA, and the format and mandatory information recommended by CMB.

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

The company’s functional and presentation currency is accepted as TRY.

Going concern

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

Comparatives of prior periods’ financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company on 31 March 2022 has been provided with the comparative financial information of 31 December 2021 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the interim period between 1 January - 31 March 2022 have been provided with the comparative financial information, for the period between 1 January 2021 - 31 March 2021.

2.2 Amendments and interpretations in the standards

The new standards, amendments, and interpretations

The Company has applied the new and revised standards and interpretations issued by the KGK as of 1 January 2022 and related to its own activity.

a. Standards, amendments and interpretations applicable as of 31 March 2022:

- **Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2;** effective from annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- **Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9;** effective from annual periods beginning on or after 1 January 2023. These amendments defer the date of application of IFRS 17 by two years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY - 31 MARCH 2022**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

- **Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions Extension of the Practical expedient;** as of 31 March 2021, this amendment extended from 30 June 2021 to 30 June 2022. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

b. Standards, amendments, and interpretations that are issued but not effective as of 31 March 2022:

- **Amendments to IAS 1, Presentation of financial statements on classification of liabilities;** effective date deferred until accounting periods starting not earlier than 1 January 2024. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.
- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8;** effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- **Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction;** from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.
- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37, and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after 1 January 2022.
 - o **Amendments to IFRS 3, ‘Business combinations’** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Amendments and interpretations in the standards (Continued)

- **Amendments to IAS 16**, ‘Property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **Amendments to IAS 37**, ‘Provisions, contingent liabilities and contingent assets’ specify which costs a company includes when assessing whether a contract will be loss-making.

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

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

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).

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Trade receivables, impairment loss and expected credit losses

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

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

The Company measures the allowance for trade receivables at an amount equal to the "expected lifetime credit losses" (except for realized impairment losses) where the trade receivables are not impaired for some reason. Expected credit losses are a weighted estimate of the likelihood of credit losses over the expected life of a financial instrument.

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

Inventories

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

Trade payables

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Property, plant, and equipment

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

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

Land improvements	14.5 - 30 year
Buildings	14.5 - 36 year
Machinery and equipment	5 - 25 year
Moulds and models	Project Lifetime
Furniture and fixtures	4 - 14.5 year
Motor vehicles	9 - 15 year

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 to produce new commercial vehicles, are capitalized as discussed in Note 2 Research and development expenses (Note 11).

The estimated useful lifetimes of such assets are as follows:

Rights	3 - 5 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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY - 31 MARCH 2022**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Impairment losses are recognized in the statement of profit or loss. Impairment losses are recognized in the statement of profit or loss. Impairment losses on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur after the period when the impairment loss was recorded.

Financial assets

Classification and Measurement

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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. Dividend’s payable is recognized as an appropriation of profit in the period in which they are declared (Notes 17 and 29).

Taxes on income

Taxes include current period income taxes and deferred taxes.

Current period income tax

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

Deferred tax

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax base 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).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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 is also recognized directly in the equity) or those which result from the initial recognition of an enterprise merger are recognized as income or loss in the income statement.

Revenue recognition

The Company recognizes the revenue in its financial statements within the scope of the five-stage model below:

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

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

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

Goods & services sales

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

For domestic vehicle and spare parts sales, significant risk and rewards are transferred to the buyer when goods are delivered and received by the buyer or when the legal title is passed to the buyer. But if the Company makes a sales agreement with buyback commitment, which shall most likely be applied, the sales made in this scope are not recognized as revenue and monitored under “Other Non-Current Liabilities” (Note 31). Sales, which are subject to buyback commitment, are evaluated as operating lease and monitored as deferred income through allocating the difference between the price paid by the customers and their buyback price to leasing period. (Note 30) The revenue recognised on lease revenue for the periods over 1 year is recognized as “Long term deferred revenue” (Note 30)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

The vehicles with repurchase commitments are classified in tangible assets (Note 10). The vehicles are amortised during the repurchase commitment period. For export sales significant risk and rewards are transferred to the buyer on FAS, “Final Assignment to Ship” terms. Exported service sales are recorded when the service is delivered, and the amount of revenue can be measured reliably.

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

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

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

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

The Company provides legal warranty commitment to its customers depending on the type of goods and the location of sale between 2-3-4 years. These legal warranty commitments are mandatory by regulations, have not a separate price apart from the good and are not separately sold.

Revenue from extended warranty and maintenance package

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

Dividend and interest income

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

Foreign currency transactions and balances

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

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 using Direct Debit System. The use of DDS for receivables from dealers is an effective way to decrease the credit risk.

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

Price risk

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

Liquidity risk

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

Interest rate risk

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

Capital risk management

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

	31 March 2022	31 December 2021
Net financial debt	(9,891,627)	(4,882,296)
VAFÖK (*)	11,936,056	10,492,007
Net financial debt / EBITDA (*)	(0.83)	(0.47)

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

Fair value of financial instruments

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

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

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

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

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

Financial assets

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial liabilities

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

Cash flow hedge accounting

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY - 31 MARCH 2022**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Borrowings and borrowing costs

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

Provision for employee benefits

a) Defined benefit plan

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

b) Defined contribution plan

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

c) Other employee benefits

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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 provisions

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

Research and development expenses

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Related parties

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

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

If that person,

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Earnings per share

Earnings per share disclosed in the statement of profit or loss are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related year concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and the revaluation surplus. To 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 36).

Offsetting

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Government grants and incentives

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

TFRS 16 “Leases” Standard

Company - As a Lessee

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

- The contract includes an identified asset (identification of an asset in a clear or implicitly specified form in the contract),
- A capacity portion of an asset is an identified asset if it is physically distinct and represents substantially all of the capacity of the asset (the asset is not an identified asset if the vendor has a fundamental right to substitute the asset for the duration of its use and obtain an economic benefit from it),
- The Company has the right to obtain almost all of the economic benefits that will be derived from the use of the identified asset.
- The right to direct the use of the identified asset. The Company has the right to direct the use of an identified asset throughout the period of use only if either:
 - a) The Company has the right to direct how and for what purpose the asset is used throughout the period of use
 - b) The relevant decisions about how and for what purpose the asset is used are predetermined and:
 - i. The Company has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions or
 - ii. The Company designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Right of use asset

At the commencement date, the Company shall measure the right-of-use asset at cost (Note 32). The cost of the right-of-use asset shall comprise:

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

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

- a) Less any accumulated depreciation and any accumulated impairment losses and
- b) Adjusted for any remeasurement of the lease liability.

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

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

Lease liability

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

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

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

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

- a) Increasing the carrying amount to reflect interest on the lease liability,
- b) Reducing the carrying amount to reflect the lease payments made and
- c) Remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Extension and early termination options

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

Variable lease payments

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

Practical expedient

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

Company - As Lessor

The Company has no significant activity as a lessor.

2.4 Important developments regarding the current period

Due to the epidemic of COVID-19, which affects the whole world, the slowdown in economic activities, supply, production and sales in the country and sector where the Company operates and in the countries where the sales are made in parallel with the developments in general economic activities. There have been disruptions in their processes. In this context, production activities were temporarily suspended, especially during the periods when curfews were imposed. In this process, the necessary actions were taken by the Company management to minimize the possible effects of COVID-19 on the Company's activities and financial status.

As a result of the increasing demand for electronic components (microchip) during the Covid-19 pandemic, there are difficulties in the supply of in-vehicle electronic components, which have been used more intensively in the automotive sector in recent years. Our main partner, Ford Motor Company, with its global suppliers, tries to ensure that the materials of electronic components are used efficiently by giving priority to the solution of the problem and the main production lines.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Important developments regarding the current period (Continued)

Although there were some slowdowns in the daily production pace in the first quarter of the year within the scope of supply problems in semiconductor materials, Company’s production activities continued with the effective management of the process.

Although the effects of the Covid-19 have decreased globally, future uncertainties continue. While preparing the financial statements as of March 31, 2022, the possible effects of the Covid-19 outbreak were evaluated and the estimates and assumptions used in the preparation of the financial statements were reviewed. In this context, the Company has evaluated the possible impairments in the values of financial assets, inventories and tangible fixed assets in its financial statements dated March 31, 2022, and no significant effect has been identified.

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 under provision for employee benefits (Note 15).
- (b) In determination of the impairment of trade receivables, the factors such as debtor credibility, historical payment performance and debt restructuring is considered. The expected credit loss of trade receivables has been measured and no significant effect has been found. (Note 7).
- (c) Discounted inventory price list is used to calculate inventory impairment. Where the sales price cannot be predicted, technical personnel’s opinion and inventory waiting time is considered. If expected net realizable value is less than cost, the Company should allocate provisions for inventory impairment (Note 9).
- (d) In determination of the legal case provisions, the possibilities of losing the case and the liabilities that will arise if the case is lost is evaluated by the Company’s Legal Counsellor and by the Management team taking into account expert opinions. The management determines the amount of the provisions based on the best forecasts.
- (e) In calculation of the warranty provision, the Company considers the historical warranty expenses incurred addition to planned technical and financial improvements to estimate the possible warranty expense per vehicle. Provision calculations are realistically performed and based on vehicle quantity, warranty period and historical claims (Note 13).

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Significant accounting estimates and decisions (Continued)

- (f) Deferred tax assets are recognized when the occurrence of taxable profit is probable in the forthcoming years. Deferred tax asset is calculated over any temporary differences in cases when the occurrence of taxable profit is probable, taken into consideration of tax advantages obtained within the context of investment incentive certificates. Deferred tax asset is recorded as of 31 March 2022 and 31 December 2021 since presumptions that the Company will have taxable profit in the forthcoming periods are found to be sufficient (Note 24).
- (g) The Company recognizes depreciation and amortization for its property, plant and equipment and intangibles by taking into account their useful lives that are stated in Note 2 (Notes 10 and 11).
- (h) The company capitalizes ongoing development expenditures and evaluates whether there is an annual depreciation of these capitalized assets. As of 31 March 2022 and 31 December 2021, there is no impairment of capitalized development expenses (Note 11).

3. SEGMENT REPORTING

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

4. CASH AND CASH EQUIVALENTS

The maturity period of time deposits is up to three months and there is no blockage/restriction on cash and cash equivalents. The weighted average interest rate for foreign currency denominated time deposits is 0.76% (31 December 2021: 0.38%) and the weighted average interest rate for the TRY time deposits is 16.81% (31 December 2021: 18.96%).

	31 March 2022	31 December 2021
Banks - TRY time deposits	13,552,675	6,492,334
Banks - foreign currency time deposits	1,493,686	7,551,944
Banks - TRY demand deposits	62,462	11,583
Banks - foreign currency demand deposits	60,711	50,379
Cash and cash equivalents in the cash flow statement	15,169,534	14,106,240
Interest income accrual	5,464	67,691
	15,174,998	14,173,931

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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5. FINANCIAL INVESTMENTS

	31 March 2022		31 December 2021	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Financial assets at fair value through other comprehensive income				
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0.59	60,050	0.59	49,913
		60,050		49,913

(*) The Company's shareholding in Otokar was stated at market value at 31 March 2022 and 31 December 2021 which is assumed to approximate its fair value.

6. FINANCIAL LIABILITIES

Short-term financial liabilities

Bank borrowings

	31 March 2022		31 December 2021	
	Effective interest rate (%)	Amount	Effective interest rate (%)	Amount
- EUR	0.75	7,028,464	0.57	4,413,965
- TRY	0.00	53,890	0.00	59,410
		7,082,354		4,473,375

Short-term portion of long-term financial liabilities

Bank borrowings

- EUR	2.06	3,582,594	1.79	3,733,404
		3,582,594		3,733,404

Lease liabilities

- EUR	4.85	31,032	4.83	31,276
- TRY	23.48	16,535	24.13	18,864
		47,567		50,140
		3,630,161		3,783,544

Total short-term financial liabilities **10,712,515** **8,256,919**

Long-term financial liabilities

Bank borrowings

	31 March 2022		31 December 2021	
	Effective interest rate (%)	Amount	Effective interest rate (%)	Amount
- EUR	2.24	14,311,046	2.23	10,749,405
		14,311,046		10,749,405

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6. FINANCIAL LIABILITIES (Continued)**Lease liabilities**

	31 March 2022		31 December 2021	
	Effective interest rate (%)	Amount	Effective interest rate (%)	Amount
- TRY	24.13	26,754	23.88	29,829
- EUR	5.29	16,310	5.20	20,074
		43,064		49,903
Total long-term financial liabilities		14,354,110		10,799,308

The payment schedules of long-term bank borrowings as of 31 March 2022 and 31 December 2021 are as follows:

Payment Period	31 March 2022	31 December 2021
2023	3,116,352	3,089,074
2024	3,509,952	2,478,784
2025	3,071,278	2,113,774
2026	2,904,833	1,994,758
2027	875,651	549,904
2028	832,980	523,111
	14,311,046	10,749,405

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TRY6,726,653 (31 December 2021: TRY4,788,554) (Note 13).

The movement of financial liabilities as of 31 March 2022 and 2021 is as follows:

	2022	2021
1 January	19,056,227	8,080,874
Cash inflows from borrowing	7,114,313	2,382,360
Cash outflows from borrowing	(3,444,709)	(260,035)
Cash outflows related to debt payments arising from lease agreements	(18,315)	(11,743)
Unrealised foreign exchange differences	2,283,867	852,678
Change in accrual of interest	69,528	22,877
Changes in TFRS 16 - lease liabilities	5,714	4,631
31 March	25,066,625	11,071,642

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7. TRADE RECEIVABLES AND PAYABLES

	31 March 2022	31 December 2021
Short-term trade receivables		
Trade receivables	3,843,111	3,532,719
Doubtful receivables (*)	229,602	229,602
Less: provision for doubtful receivables	(229,602)	(229,602)
Less: unearned credit finance income	(38,620)	(40,148)
	3,804,491	3,492,571

(*) The portion of TRY225,139 of the doubtful receivables amount is related to the dealers involved in the fraud process.

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2021: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2021: 70 days) and discounted by 1.39% monthly effective interest rate (31 December 2021: 1.49%).

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

	31 March 2022	31 December 2021
Long-term trade receivables		
Deposits and guarantees given	7,115	6,302
Trade receivables	26,972	31,277
	34,087	37,579

	31 March 2022	31 December 2021
Trade payables		
Trade payables	10,973,420	9,341,802
Less: unearned credit finance expense	(70,339)	(69,584)
	10,903,081	9,272,218

The average turnover of trade payables is 60 days (31 December 2021: 60 days) and discounted by 1.39% monthly effective interest rate (31 December 2021: 1.49%).

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

The maximum exposure of the Company to credit risk as of 31 March 2022 and 31 December 2021 is as follows:

31 March 2022	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 4,7,8,26)	7,307,290	3,804,491	-	14,925	15,169,534
- The maximum of credit risk covered by guarantees	388,000	2,633,200	-	-	-
Net book value of the financial assets that are neither overdue not impaired	6,603,077	3,786,313	-	14,925	15,169,534
Net book value of financial assets that are overdue but not impaired	704,213	18,178	-	-	-
- Amount of risk covered by guarantees	-	1,292	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	229,602	-	-	-
- Provision for impairment (-)	-	(229,602)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2021	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 4,7,8,26)	7,914,177	3,492,571	-	820	14,106,240
- The maximum of credit risk covered by guarantees	360,620	3,466,862	-	-	-
Net book value of the financial assets that are neither overdue not impaired	7,631,251	3,481,061	-	820	14,106,240
Net book value of financial assets that are overdue but not impaired	282,926	11,510	-	-	-
- Amount of risk covered by guarantees	-	713	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	229,602	-	-	-
- Provision for impairment (-)	-	(229,602)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

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

31 March 2022	Trade Receivables	
	Related Party	Other
1 - 30 days overdue	425,352	2,809
1 - 3 months overdue	198,980	3,226
3 - 12 months overdue	74,556	9,069
1 - 5 years overdue	5,325	3,074
	704,213	18,178
Risk covered by guarantees	-	1,292

Company's overdue receivables from related parties result from long-term engineering service invoices and parts export receivables from Ford Motor Company.

31 December 2021	Trade Receivables	
	Related party	Other
1 - 30 days overdue	88,928	7,199
1 - 3 months overdue	112,008	192
3 - 12 months overdue	81,039	3,345
1 - 5 years overdue	951	774
	282,926	11,510
Risk covered by guarantees	-	713

8. OTHER RECEIVABLES AND PAYABLES

	31 March 2022	31 December 2021
Other receivables		
Other miscellaneous receivables	14,925	820
	14,925	820
	31 March 2022	31 December 2021
Other payables		
Taxes and funds payable	248,950	130,296
Sales premium accruals	144,671	52,693
Provisions for donations	37,827	-
Marketing expense and other expense accruals	9,800	-
Other	49,014	37,766
	490,262	220,755

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9. INVENTORIES

	31 March 2022	31 December 2021
Raw materials	3,665,889	3,339,957
Finished goods	3,347,180	773,904
Goods in transit	1,358,116	620,062
Vehicle spare parts	430,189	385,651
Spare parts	119,897	90,557
Import vehicles	53,162	39,121
Other	88,995	32,696
	9,063,428	5,281,948
Less: provision for impairment of finished goods and vehicle spare parts	(29,566)	(12,642)
	9,033,862	5,269,306

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:

	2022	2021
1 January	12,642	18,073
Change within the period	16,924	(3,683)
31 March	29,566	14,390

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

10. PROPERTY, PLANT AND EQUIPMENT

1 January 2022	Land improvements	Land	Buildings	Machine and equipment	Models and moulds	Fixture and furniture	Vehicles (*)	Constructions in progress	Total
Cost	94,929	227,002	1,058,712	3,931,317	4,157,632	646,774	38,425	717,166	10,871,957
Accumulated depreciation	-	(103,550)	(524,404)	(1,891,358)	(2,807,140)	(385,793)	(10,629)	-	(5,722,874)
Net book value	94,929	123,452	534,308	2,039,959	1,350,492	260,981	27,796	717,166	5,149,083
For the period ended 31 March 2022									
Opening net book value	94,929	123,452	534,308	2,039,959	1,350,492	260,981	27,796	717,166	5,149,083
Additions	-	3,952	7,952	72,749	124,625	34,910	5,263	203,957	453,408
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	(44)	(1,224)	(195,458)	(46,784)	(3,473)	(646)	-	(247,629)
Depreciation charge	-	(1,775)	(7,625)	(51,871)	(151,570)	(12,310)	(963)	-	(226,114)
Disposals from accumulated depreciation	-	7	1,172	181,294	44,900	3,126	238	-	230,737
Closing net book value	94,929	125,592	534,583	2,046,673	1,321,663	283,234	31,688	921,123	5,359,485
31 March 2022									
Cost	94,929	230,910	1,065,440	3,808,608	4,235,473	678,211	43,042	921,123	11,077,736
Accumulated depreciation	-	(105,318)	(530,857)	(1,761,935)	(2,913,810)	(394,977)	(11,354)	-	(5,718,251)
Net book value	94,929	125,592	534,583	2,046,673	1,321,663	283,234	31,688	921,123	5,359,485

The Company compared the borrowing cost of investment loans in foreign currency to the market loan interest denominated in TRY. According to the cumulative method within the scope of TAS 23, there is no interest expense capitalized for the period ending as of 31 March 2022. (31 December 2021: None).

There is no collateral, pledge or mortgage on tangible assets as of 31 March 2022 and 2021.

(*) 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 TRY18,464 (31 December 2021: TRY18,464).

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

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

1 January 2021	Land improvements	Land	Buildings	Machine and equipment	Models and moulds	Fixture and furniture	Vehicles (*)	Constructions in progress	Total
Cost	94,929	208,154	1,035,421	3,420,759	3,882,471	543,000	46,990	138,298	9,370,022
Accumulated depreciation	-	(96,865)	(493,050)	(1,748,880)	(2,272,833)	(345,670)	(9,351)	-	(4,966,649)
Net book value	94,929	111,289	542,371	1,671,879	1,609,638	197,330	37,639	138,298	4,403,373
For the period ended 31 March 2021									
Opening net book value	94,929	111,289	542,371	1,671,879	1,609,638	197,330	37,639	138,298	4,403,373
Additions	-	2,896	2,143	84,229	18,592	16,584	6,681	42,732	173,857
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(700)	(6,806)	-	(7,506)
Depreciation charge	-	(1,508)	(7,826)	(46,453)	(129,201)	(9,224)	(2,062)	-	(196,274)
Disposals from accumulated depreciation	-	-	-	-	-	120	1,713	-	1,833
Closing net book value	94,929	112,677	536,688	1,709,655	1,499,029	204,110	37,165	181,030	4,375,283
31 March 2021									
Cost	94,929	211,050	1,037,564	3,504,988	3,901,063	558,884	46,865	181,030	9,536,373
Accumulated depreciation	-	(98,373)	(500,876)	(1,795,333)	(2,402,034)	(354,774)	(9,700)	-	(5,161,090)
Net book value	94,929	112,677	536,688	1,709,655	1,499,029	204,110	37,165	181,030	4,375,283

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

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The allocation of depreciation expense as of 31 March 2022 and 2021 is as follows:

	31 March 2022	31 March 2021
Cost of production (Note 18)	213,097	186,188
General administrative expenses (Note 19)	5,575	3,796
Research and development expenses (Note 19)	5,529	4,829
Marketing expenses (Note 19)	872	838
Associated with construction in progress	1,041	623
	226,114	196,274

11. INTANGIBLE ASSETS

1 January 2022	Rights	Development cost	Development cost in progress i	Other	Total
Cost	206,575	1,485,847	729,519	7,284	2,429,225
Accumulated amortisation	(115,696)	(819,569)	-	(7,183)	(942,448)
Net book value	90,879	666,278	729,519	101	1,486,777

For the period ended 31 March 2022

Opening net book value	90,879	666,278	729,519	101	1,486,777
Additions	16,932	337,780	-	-	354,712
Disposals	-	-	-	(2,567)	(2,567)
Amortisation charge	(10,450)	(47,741)	-	(40)	(58,231)
Disposals from accumulated depreciation	-	-	-	2,567	2,567
Closing net book value	97,361	956,317	729,519	61	1,783,258

31 March 2022

Cost	223,507	1,823,627	729,519	4,717	2,781,370
Accumulated amortisation	(126,146)	(867,310)	-	(4,656)	(998,112)
Net book value	97,361	956,317	729,519	61	1,783,258

There are no fully depreciated intangible assets as of 31 March 2022. As of 31 March 2022, there is no capitalized interest cost and foreign exchange difference in accordance with TAS 23 (31 December 2021: None).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

11. INTANGIBLE ASSETS (Continued)

1 January 2021	Rights	Development cost	Development cost in progress	Other	Total
Cost	121,228	1,136,844	383,265	7,284	1,648,621
Accumulated amortisation	(91,430)	(645,331)	-	(7,021)	(743,782)
Net book value	29,798	491,513	383,265	263	904,839

For the period ended 31 March 2021

Opening net book value	29,798	491,513	383,265	263	904,839
Additions	1,223	96,076	-	-	97,299
Transfers	-	252,569	(252,569)	-	-
Amortisation charge	(5,587)	(42,553)	-	(41)	(48,181)
Closing net book value	25,434	797,605	130,696	222	953,957

31 March 2021

Cost	122,451	1,485,489	130,696	7,284	1,745,920
Accumulated amortisation	(97,017)	(687,884)	-	(7,062)	(791,963)
Net book value	25,434	797,605	130,696	222	953,957

The allocation of amortisation charges of intangible assets relating to 31 March 2022 and 2021 is as follows:

	31 March 2022	31 March 2021
Cost of production (Note 18)	48,225	43,152
General administrative expenses (Note 19)	5,236	3,947
Marketing expenses (Note 19)	3,808	201
Research and development expenses (Note 19)	945	865
Associated with construction in progress	17	16
	58,231	48,181

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

12. PREPAID EXPENSES

Short-term prepaid expenses	31 March 2022	31 December 2021
Advances given for inventories	262,383	249,320
Other prepaid expenses (*)	79,901	54,376
	342,284	303,696

Long-term prepaid expenses	31 Mart 2022	31 December 2021
Advances given for investments (*)	2,850,217	1,398,084
Other prepaid expenses	21,066	23,709
	2,871,283	1,421,793

(*) Advances given for investments are related to the Company’s new vehicle investments. TRY1,003,407 (31 December 2021: TRY751,825) is given to domestic vendors as mould advances and TRY1,846,810 (31 December 2021: TRY646,259) is the advance given for the new project investments.

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES

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

Short-term provisions

	31 March 2022	31 December 2021
2021		
Warranty expense provision	363,022	317,812
Provisions for sales premium (*)	39,979	72,349
	403,001	390,161

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

Long-term provisions

	31 March 2022	31 December 2021
Warranty expense provision	362,455	328,431
Provisions for lawsuits	78,439	87,587
	440,894	416,018

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

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	2022	2021
1 January	87,587	83,369
Paid during the period	(3,040)	(8,045)
Additions during the period	(6,108)	13,544
31 March	78,439	88,868

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

	2022	2021
1 January	646,243	354,216
Paid during the period	(121,883)	(39,341)
Additions during the period (Note 19)	201,117	66,589
31 March	725,477	381,464

Letters of guarantee and letters of credit	31 March 2022	31 December 2021
Letters of guarantee given to financial institutions due to bank loans	6,726,653	4,788,554
Letters of guarantee given to customs	167,677	151,414
Letters of guarantees given to other parties	102,793	87,044
	6,997,123	5,027,012

Letters of guarantee given

	31 March 2022		31 December 2021	
	Original currency	TRY amount	Original currency	TRY amount
EUR	422,536	6,890,978	336,221	4,936,492
TRY	106,145	106,145	90,520	90,520
		6,997,123		5,027,012

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

The allocation of collaterals, pledges and mortgages as of 31 March 2022 and 31 December 2021 as follows:

Collaterals, pledges and mortgages given by the Company	31 March 2022	31 December 2021
A. Total amount of collaterals/pledges/mortgages given for its own legal entity	6,992,257	5,022,460
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	4,866	4,552
D. Total amount of other collaterals/pledges/mortgages given		
i. Total amount of collaterals/pledges/mortgages	-	-
ii. Total amount of collaterals/pledges/mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals/pledges/mortgages given for third parties that do not fall into C section	-	-
	6,997,123	5,027,012

As of 31 March 2022 and 31 December 2021, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

Letters of guarantee taken

	31 March 2022		31 December 2021	
	Original currency	TRY amount	Original currency	TRY amount
TRY	1,389,262	1,389,262	761,409	761,409
EUR	82,308	1,342,333	66,651	978,591
USD	628	9,194	201	2,606
		2,740,789		1,742,606

Other

The long-term bank borrowing agreements related to the investments require the Company to comply with certain financial ratios. Such financial ratios are met by the Company as of 31 March 2022 and 31 December 2021.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

14. COMMITMENTS

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

- a) The Company has signed a 1-year loan commitment agreement with İşbank amounting to EUR100,000,000 in 2022. With this agreement the company committed to pass the export value of EUR200,000,000 through its accounts in 2022.
- b) The Company also committed to Türkiye İhracat Kredi Bankası A.Ş. (Eximbank):
 - With 2 years term credit amounting to EUR23,000,000 used in May 2020 an export amount of EUR23,000,000,
 - With 4 months term credit amounting to EUR90,000,000 used in December 2021 an export amount of EUR90,000,000,
 - With 4 months term credit amounting to EUR28,000,000 used in January 2022 an export amount of EUR28,000,000,
 - With 6 months term credit amounting to EUR65,000,000 used in February 2022 an export amount of EUR65,000,000,
 - With 6 months term credit amounting to EUR150,000,000 used in March 2022 an export amount of EUR150,000,000

15. EMPLOYEE BENEFITS

Liabilities for employee benefit obligations

	31 March 2022	31 December 2021
Salaries and social charges payable	224,031	211,365
Social security premiums payable	77,383	115,246
Income tax withholdings payable	29,413	84,876
Other	17,019	8,073
	347,846	419,560

Long-term provision for employee benefits

	31 March 2022	31 December 2021
Provision for employment termination benefits	501,916	491,932
Provision for unused vacation pay liability	115,726	76,565
	617,642	568,497

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15. EMPLOYEE BENEFITS (Continued)

Provision for employee benefits:

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

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

The amount payable consists of one month’s salary limited to a maximum of full TRY10,848.59 for each year of service as of 1 January 2022 (1 January 2022: Full TRY7,638.96).

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

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

	31 March 2022	31 December 2021
Net discount rate (%)	4.45	4.45
Turnover rate to estimate the probability of retirement (%)	95.22	95.61

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Since the Company calculates the reserve for employee benefits once a year, the maximum amount of full TRY10,848.59 which was effective as of 1 January 2022 (1 January 2021: Full TRY7,638.96) has been used in the calculations.

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

	2022	2021
1 January	491,932	312,721
Interest cost	27,056	10,163
Current year service cost	9,901	5,893
Paid during the period	(10,912)	(5,462)
Actuarial gains	(16,061)	(4,061)
31 March	501,916	319,254

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

15. EMPLOYEE BENEFITS (Continued)

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of 31 March 2022 is below:

Sensitivity level	Net discount rate		Turnover rate related to the probability of retirement	
	0,5% base decrease	0,5% base increase	0,5% base decrease	0,5% base increase
Rate (%)	(4,0)	(5,0)	94,7	95,7
Change in provision for Employee benefits	33,244	(30,435)	(10,346)	10,852

16. OTHER CURRENT ASSETS

	31 March 2022	31 December 2021
VAT to be deducted (*)	1,715,562	1,527,009
Prepaid taxes and withholding	74,120	56,306
Other	28,697	76,036
	1,818,379	1,659,351

(*) VAT to be deducted includes export VAT receivables related to February and March 2022. VAT return for February 2022 amounting to TRY613,122 has been collected in April.

17. EQUITY

The composition of the Company's paid-in capital as of 31 March 2022 and 31 December 2021 is as follows:

Shareholders	Share group	31 March 2022	Shareholders percentage (%)	31 December 2021	Shareholders percentage (%)
Koç Holding A.Ş.	B	135,631	38.65	135,631	38.65
Temel Ticaret ve Yatırım A.Ş.	B	2,356	0.67	2,356	0.67
Ford Deutschland Holding GmbH	C	143,997	41.04	143,997	41.04
Vehbi Koç Vakfı	A	2,881	0.82	2,881	0.82
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3,259	0.93	3,259	0.93
Other (Public)	A	62,786	17.89	62,786	17.89
		350,910	100	350,910	100
Inflation adjustment to share capital		27,920		27,920	
Inflation adjusted paid in capital		378,830		378,830	

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

17. EQUITY (Continued)

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

There are 35,091,000,000 unit of shares (31 December 2021: 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 TRY1,220,744 as of 31 March 2022 (31 December 2021: TRY766,316).

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

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

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

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

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

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17. EQUITY (Continued)

In accordance with the Ordinary General Assembly Meeting dated as of 21 March 2022 the Company has decided to distribute dividends at the rate of 1,300% gross (net 1,170%) with a total amount of TRY4,561,830 as full TRY13.00 gross (Kr1,170 net) for each share with a value of full TRY1 and the Company made the dividend payment in March (In March 2021, full TRY1 share is gross full TRY6.42 (Kr545.70 net), 642% is TRY2,252,842, and in November 2021, full TRY1 share is 3.77 full Turkish lira (Kr320.45 net) A gross cash dividend of 377% and a total of TRY1,322,931 was distributed).

In accordance with Communiqué No: II-14.1 “Communiqué on the Principles of Financial Reporting in Capital Markets”, equity schedule at 31 March 2022 and 31 December 2021 are as follows:

	31 March 2022	31 December 2021
Issued capital	350,910	350,910
Inflation adjustments on capital	27,920	27,920
Share premium	8	8
Gains from financial assets measured at fair value through other comprehensive income	56,119	46,489
Losses on cash flow hedge	(3,307,147)	(3,191,233)
Losses on remeasurements of defined benefit plans	(112,874)	(125,723)
Restricted reserves	1,220,744	766,316
- Legal reserves	1,220,744	766,316
Retained earnings	7,257,593	3,472,846
- Inflation adjustment to equity	428,301	428,301
- Extraordinary reserves	6,829,292	3,044,545
Net income for the period	2,801,779	8,801,005
Total equity	8,295,052	10,148,538

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended 31 March 2022 and 31 December 2021 are as follows:

31 March 2022	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910	378,830	27,920
Legal reserves	1,220,744	1,279,497	58,753
Extraordinary reserves	6,829,292	7,198,437	369,145
Share premium	8	361	353
Other reserves	-	50	50
	8,400,954	8,857,175	456,221

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17. EQUITY (Continued)

31 December 2021	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910	378,830	27,920
Legal reserves	766,316	825,069	58,753
Extraordinary reserves	3,044,545	3,413,690	369,145
Share premium	8	361	353
Other reserves	-	50	50
	4,161,779	4,618,000	456,221

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

Otokar shares which are publicly traded in BIST are valued at their closing price as of 31 March 2022 and

31 December 2021. As of 31 December 2021, fair value change amounting to TRY9,630 net of deferred tax, (31 December 2021: TRY4,889) is shown in statement of comprehensive income.

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

	2022	2021
1 January	(3,270,467)	(1,408,271)
Gains/(losses) from financial assets measured at fair value through other comprehensive income	9,630	5,944
Actuarial gains/(losses)	12,849	3,249
Gains/(losses) on cash flow hedges	(115,914)	(302,506)
31 March	(3,363,902)	(1,701,584)

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18. REVENUE AND COST OF SALES

	31 March 2022	31 March 2021
Export sales	22,468,684	12,536,606
Domestic sales	5,837,040	4,106,198
Other sales	186,177	87,488
Less: discounts	(615,476)	(476,150)
	27,876,425	16,254,142

Units of vehicle sales

	31 March 2022			31 March 2021		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	1,037	38,108	39,145	952	50,416	51,368
Transit	3,629	28,283	31,912	5,406	28,564	33,970
Transit Courier	6,438	8,085	14,523	8,763	5,661	14,424
Ford Trucks (Trucks)	1,740	1,971	3,711	1,847	860	2,707
Passenger vehicles	2,016	-	2,016	3,923	16	3,939
Ranger	106	-	106	98	2	100
Transit Connect	84	-	84	181	-	181
Rakun	29	-	29	-	-	-
	15,079	76,447	91,526	21,170	85,519	106,689

Summaries of cost of production as of 31 March 2022 and 2021 are as follows:

	31 March 2022	31 March 2021
Cost of raw material	(22,878,034)	(12,335,849)
Production overhead costs	(1,324,981)	(690,301)
Amortization expenses (Notes 10, 11 and 32)	(268,092)	(234,972)
Changes in finished goods	2,556,352	312,606
Total production cost	(21,914,755)	(12,948,516)
Cost of trade goods sold	(2,242,556)	(1,237,553)
Total cost of sales	(24,157,311)	(14,186,069)

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ENDED 1 JANUARY - 31 MARCH 2022**

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

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

	31 March 2022	31 March 2021
Research and development expenses		
Personnel expenses	(133,940)	(76,825)
Project costs	(89,281)	(17,610)
Mechanization expenses	(43,664)	(19,189)
Depreciation and amortization expenses (Notes 10, 11 and 32)	(6,971)	(5,999)
Other	(2,859)	(9,896)
	(276,715)	(129,519)

	31 March 2022	31 March 2021
Marketing expenses		
Warranty expenses (Note 13)	(201,117)	(66,589)
Personnel expenses	(81,500)	(41,894)
Vehicle transportation expenses	(53,819)	(20,822)
Spare parts transportation and packaging expenses	(18,239)	(6,912)
Advertising expenses	(18,100)	(19,751)
Export expenses	(14,615)	(9,818)
Depreciation and amortization expenses (Notes 10, 11 and 32)	(6,558)	(2,614)
Mechanization expenses	(5,716)	(1,796)
Dealer and service development expenses	(988)	(500)
Other	(79,447)	(38,528)
	(480,099)	(209,224)

	31 March 2022	31 March 2021
General administrative expenses		
Personnel expenses	(130,002)	(64,697)
Grants and donations	(39,907)	(28,986)
Transportation and travel expenses	(12,244)	(4,853)
Mechanization expenses	(11,977)	(5,450)
Depreciation and amortization expenses (Notes 10, 11 and 32)	(11,600)	(8,133)
New project administrative expenses	(9,268)	(1,246)
Legal, consulting and auditing expenses	(8,828)	(21,466)
Repair, maintenance and energy expenses	(5,204)	(2,496)
Organization expenses	(3,178)	(2,316)
Duties, taxes and levies expenses	(2,624)	(3,111)
Other	(50,795)	(27,293)
	(285,627)	(170,047)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

20. EXPENSES BY NATURE

The classification of expenses by nature for the periods ended at 31 March 2022 and 2021 is as follows:

	31 March 2022	31 March 2021
Raw material cost	(22,878,034)	(12,335,849)
Financial expenses	(2,352,474)	(676,515)
Cost of trade goods sold	(2,242,556)	(1,237,553)
Personnel expenses	(1,039,770)	(559,653)
Other operational expenses	(671,870)	(308,628)
Other overhead costs	(630,653)	(314,064)
Other expenses from operating activities	(362,161)	(219,887)
Depreciation and amortization expenses	(293,221)	(251,718)
Expenses from investing activities	(16,226)	-
Changes in inventories	2,556,352	312,606
Total expenses	(27,930,613)	(15,591,261)

21. OTHER OPERATING INCOME/(EXPENSES)

	31 March 2022	31 March 2021
Other operating income		
Foreign exchange gains		
related to trade receivables and payables	665,016	259,916
Financial income from forward sales	112,933	95,066
License income	11,074	4,721
Commission income	3,991	4,583
Price difference and claim recovery	2,920	2,612
Rent income	954	3,363
Other	11,382	10,999
	808,270	381,260

	31 March 2022	31 March 2021
Other operating expenses		
Unearned financial expense	(229,256)	(177,084)
Foreign exchange losses		
related to trade receivables and payables	(130,076)	(41,180)
Other	(2,829)	(1,623)
	(362,161)	(219,887)

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22. FINANCIAL INCOME

	31 March 2022	31 March 2021
Foreign exchange gains	1,232,077	469,902
Interest income	251,563	300,672
Other	43,898	-
	1,527,538	770,574

23. FINANCIAL EXPENSES

	31 March 2022	31 March 2021
Foreign exchange losses	(2,237,681)	(612,286)
Interest expenses	(114,793)	(59,788)
Other	-	(4,441)
	(2,352,474)	(676,515)

24. TAX ASSETS AND LIABILITIES

Corporate Tax Law was amended by the Law No, 5520 dated 13 June 2006. Law No, 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from 1 January, 2006. Accordingly, the corporate tax rate for the fiscal year 31 March 2021 is 23% (31 December 2021: 25%). Corporate tax is payable on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc.) and corporate income tax deductions (e.g. research and development expenditures deduction). No further tax is payable unless the profit is distributed.

Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Dividend payments made to individuals and institutions other than these are subject to 10% withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

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

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

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

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24. TAX ASSETS AND LIABILITIES (Continued)

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

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

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

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

As of 31 March 2022, the Company utilised R&D incentive exemption amounting of TRY321,846 (31 March 2021: TRY109,960) in return for the legal tax.

As of the reporting date, 559,295 TRY (31 December 2021: TRY559,295) under the Large-Scale Investment Incentive Certificate, completed and investment in progress, TRY5,459,829 (31 December 2021: TRY5,457,304) under the Priority Investment Incentive Certificates and TRY1,378,071 (31st) within the scope of Project Based State Aid December 2021: TRY1,087,945) investment expenditures were made.

The Company utilized discounted corporate taxation amounting to TRY730,856 (31 December 2021: TRY1,721,248) in the current year and this amount has been deducted from the total deferred tax asset.

The law on amending the Tax Procedure Law and the Corporate Tax Law was enacted on January 20, 2022, Law No. It has been enacted with the number 7352 and it has been decided that the financial statements will not be subject to inflation adjustment in the 2021 and 2022 accounting periods, including the temporary accounting periods, and in the provisional tax periods of the 2023 accounting period, regardless of whether the conditions for the inflation adjustment within the scope of the Repeated Article 298 are met. The Public Oversight Authority made a statement on the Implementation of Financial Reporting in High Inflation Economies under TFRS on January 20, 2022, and it was stated that there was no need to make any adjustments within the scope of TAS 29 Financial Reporting in High Inflation Economies in the financial statements for 2021.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

24. TAX ASSETS AND LIABILITIES (Continued)

The Company’s net tax position as of 31 March 2022 and 31 December 2021 are as follows:

	31 March 2022	31 December 2021
Current year corporate tax expense	(32,280)	(76,950)
Prepaid tax and withholding	39,078	63,845
Current tax related assets/(liabilities)	6,798	(13,105)

The taxation on income for the periods ended 31 March 2022 and 2021 are as follows:

	31 March 2022	31 March 2021
Current year corporate tax expense	(32,280)	(12,901)
Current year tax effect of cash flow hedge (*)	(10,992)	(72,598)
Other deferred tax	559,830	87,694
Deferred tax income	548,838	15,096
Continuing operations tax (income)/(expense)	516,558	2,195

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

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at 31 March 2022 and 2021 and current tax ratio based on income before tax is as follows:

	31 March 2022	31 March 2021
Income before tax	2,285,221	1,817,179
Effective tax rate	23%	20%
Current year tax expense	(525,601)	(363,436)
Research and development deductions	74,025	21,992
Investment incentive exemption	1,050,856	277,263
Other	(82,722)	66,376
	516,558	2,195

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

The corporate tax rate has been increased to 23% for the year 2022, within the scope of the Law No. 7316 on the “Law on the Collection of Public Claims and Amendments to Certain Laws” published in the Official Gazette dated April 22, 2021. As of 2023, it will be applied as 20%. Within the scope of the related law, deferred tax assets and liabilities in the financial statements dated March 31, 2022 are calculated at the rate of 23% for the part of the temporary differences that will create tax effect in 2022, and 20% for the part that will create tax effect in the following periods.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

24. TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at 31 March 2022 and 31 December 2021 using the current enacted tax rates is as follows:

	Cumulative Temporary differences		Deferred tax assets/(liabilities)	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
Deferred tax assets				
Investment incentive tax asset	(7,397,194)	(7,104,544)	1,720,008	1,400,008
Expense accruals and other provisions	(1,024,236)	(690,644)	228,444	153,682
Warranty expense provision	(725,477)	(646,243)	153,832	141,050
Employee benefits provision	(501,916)	(491,932)	100,383	98,386
Inventories	(238,299)	(184,455)	54,809	42,425
	(9,887,122)	(9,117,818)	2,257,476	1,835,551
Deferred tax liabilities				
Tangible and intangible assets	(273,073)	430,811	54,614	(86,162)
Income accruals and other	179,266	153,259	(40,007)	(33,418)
	(93,807)	584,070	14,607	(119,580)
Net deferred tax asset			2,272,083	1,715,971

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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24. TAX ASSETS AND LIABILITIES (Continued)

The deferred tax movement table is presented below:

	1 January 2022	Charged to statement of profit or loss as income/(expense)	Charged to comprehensive income statement income/(expense)	31 March 2022
Deferred tax liabilities				
Tangible and intangible assets	(86,162)	140,777	-	54,614
Income accruals and other	(33,418)	(6,083)	(507)	(40,007)
Deferred tax assets				
Investment incentive tax asset	1,400,008	320,000	-	1,720,008
Expense accruals and other provisions	153,682	74,762	-	228,444
Warranty expense provision	141,050	12,782	-	153,832
Provision for employee benefits	98,386	5,209	(3,212)	100,383
Inventories	42,425	12,384	-	54,809
Deferred tax asset, net	1,715,971	559,831	(3,719)	2,272,083

	1 January 2021	Effect of fixes (*)	Charged to statement of profit or loss as profit or loss as	Charged to comprehensive income statement income/(expense)	31 March 2021
Deferred tax liabilities					
Tangible and intangible assets	(396,703)	-	22,424	-	(374,279)
Income accruals and other	(18,563)	-	2,966	(313)	(15,910)
Deferred tax assets					
Investment incentive tax asset	1,120,004	-	40,002	-	1,160,006
Expense accruals and other provisions	102,453	-	11,207	-	113,660
Provision for employee benefits	62,544	-	2,119	(812)	63,851
Warranty expense provision	70,843	-	5,450	-	76,293
Inventories	13,668	-	3,526	-	17,194
Impairment of trade receivables	-	67,200	-	-	67,200
Deferred tax asset, net	954,246	67,200	87,694	(1,125)	1,108,015

25. EARNINGS PER SHARE

	31 March 2022	31 March 2021
Net profit for the year (TRY)	2,801,779	1,819,374
Weighted average number of shares with nominal	35,091,000,000	35,091,000,000
Earnings per share with nominal value of Kr 1 each	7.98 Kr	5.18 Kr

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

26. RELATED PARTY DISCLOSURES

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

The related party balances at 31 March 2022 and 31 December 2021 and the transactions with related parties during the year are as follows:

a) **Receivables from related parties**

i) *Trade receivable from related parties*

	31 March 2022	31 December 2021
Due from shareholders		
Ford Motor Company and subsidiaries	6,332,187	6,613,713
	6,332,187	6,613,713
Due from group companies (*)		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	980,025	1,302,822
Other	3,850	12,466
	983,875	1,315,288
Less: financial income from credit sales	(8,772)	(14,824)
	7,307,290	7,914,177

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

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

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

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26. RELATED PARTY DISCLOSURES (Continued)

b) Payables to related parties

i) Trade payables to related parties

	31 March 2022	31 December 2021
Due to shareholders		
Ford Motor Company and its subsidiaries	2,724,614	1,564,116
	2,724,614	1,564,116
Due to group companies (*)		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	256,733	207,883
Ram Dış Ticaret A.Ş.	214,189	128,869
Ram Sigorta Aracılık Hizmetleri A.Ş.	21,525	916
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	18,863	30,427
Ark İnşaat A.Ş.	15,855	43,658
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	11,508	10,067
Opet Petrolcülük A.Ş.	11,462	9,352
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	7,725	15,007
Setur Servis Turistik A.Ş.	6,258	19,337
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	4,992	5,020
Other	8,530	76,414
	577,640	546,950
Less: unearned credit finance income	(5,334)	(4,616)
	3,296,920	2,106,450

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

ii) Other payables to related parties

	31 March 2022	31 December 2021
Koç Holding A.Ş.	-	27,905
Koç Finansman A.Ş.	-	7,975
Yapı ve Kredi Bankası A.Ş.	-	2,366
	-	38,246

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

26. RELATED PARTY DISCLOSURES (Continued)

c) Sales to related parties

	31 March 2022	31 March 2021
Ford Motor Company (*)	20,132,562	12,015,355
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	1,328,128	885,499
Other	-	1
	21,460,690	12,900,855
Less: financial income from credit sales	(28,725)	(23,190)
	21,431,965	12,877,665

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

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

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

	1 January - 31 March 2022			Total
	Material	Service	Fixed assets	
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	36,293	377,476	-	413,769
Ram Dış Ticaret A.Ş.	219,168	-	-	219,168
Ark İnşaat A.Ş.	-	-	106,523	106,523
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	51,961	17,480	69,441
Eltek Elektrik Enerjisi İth. İhr. ve Toptan Tic. A.Ş.	-	66,754	-	66,754
Opet Petrolcülük A.Ş.	28,644	-	-	28,644
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	16,970	-	16,970
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	12,948	2,787	15,735
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	13,133	-	-	13,133
Setur Servis Turistik A.Ş.	-	6,291	-	6,291
Koç Holding A.Ş. (**)	-	5,800	-	5,800
Koçtaş Yapı Marketleri Ticaret A.Ş.	5,415	-	-	5,415
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	3,957	-	-	3,957
Ingage Dijital Pazarlama A.Ş.	-	1,942	-	1,942
Tanı Pazarlama İlet. Hiz. A.Ş.	-	611	-	611
Other	109	14,613	-	14,722
	306,719	555,366	126,790	988,875
Less: Financial expense from credit purchases	(6,614)	-	-	(6,614)
	300,105	555,366	126,790	982,261

(*) Contains paid and accrued premium amounts for the period ended 31 March 2022 and 2021 within the context of insurance policies signed with insurance companies through the agency of Ram Sigorta Aracılık Hizmetleri A.Ş..

(**) Contains in return for the services provided to the companies within the Koç Holding A.Ş. in matters such as finance, law, planning, tax, senior management, including personnel and senior management expenses, the service fee invoiced to our Company as a result of the distribution of the expenses incurred in connection with the companies rendered services within the framework of the "11- Intra-Group Services" regulation of the General Communiqué No. 1 on Disguised Profit Distribution via Transfer Pricing.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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

26. RELATED PARTY DISCLOSURES (Continued)

	1 January - 31 March 2021			Total
	Material	Service	Fixed assets	
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	8,455	155,123	5	163,583
Ram Dış Ticaret A.Ş.	62,115	-	-	62,115
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	20,939	4,264	25,203
Eltek Elektrik Enerjisi İth. İhr. ve Toptan Tic. A.Ş.	-	20,823	-	20,823
Ark İnşaat A.Ş.	20,100	-	-	20,100
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	8,662	9,445	18,107
Opet Petrolcülük A.Ş.	9,976	-	-	9,976
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	8,730	-	-	8,730
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	7,734	-	7,734
Koç Holding A.Ş. (**)	-	4,670	-	4,670
Koçtaş Yapı Marketleri Ticaret A.Ş.	2,949	-	24	2,973
Ingage Dijital Pazarlama A.Ş.	-	1,571	-	1,571
Setur Servis Turistik A.Ş.	-	1,151	-	1,151
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,132	-	-	1,132
Tanı Pazarlama İlet. Hiz. A.Ş.	-	215	-	215
Other	4,690	1,785	-	6,475
	118,147	222,673	13,738	354,558
Less: Financial expense from credit purchases	(3,325)	-	-	(3,325)
	114,822	222,673	13,738	351,233

Material, vehicle and service purchases from abroad

	31 March 2022	31 March 2021
Ford Motor Company and its subsidiaries	10,086,535	6,291,721

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

	31 March 2022	31 March 2021
	98,143	73,335

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

	31 March 2022	31 March 2021
	11,074	4,721

FORD OTOMOTİV SANAYİ A.Ş.

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26. RELATED PARTY DISCLOSURES (Continued)

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

	31 March 2022	31 March 2021
	39,704	21,179

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

Deposits in related banks	31 March 2022	31 March 2021
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Yapı ve Kredi Bankası A.Ş.

- Foreign currency time deposits	4,015,471	911,255
- TRY demand deposits	45,189	48,036
- TRY time deposits	-	1,416,590
- Foreign currency demand deposits	46,345	2,346
	4,107,005	2,378,227

i) Related bank loans

	31 March 2022	31 March 2021
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Yapı ve Kredi Bankası A.Ş.	-	303,900
	-	303,900

i) Commission income

	31 March 2022	31 March 2021
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Yapı ve Kredi Bankası A.Ş.	2,291	3,065
Koç Finansman A.Ş.	1,671	1,513
	3,962	4,578

j) Commission expense

	31 March 2022	31 March 2021
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Koç Finansman A.Ş.	20,577	23,204
Yapı ve Kredi Bankası A.Ş.	924	26,483
	21,501	49,687

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

FORD OTOMOTİV SANAYİ A.Ş.

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26. RELATED PARTY DISCLOSURES (Continued)

k) Interest income

	31 March 2022	31 March 2021
Yapı ve Kredi Bankası A.Ş.	31,385	57,895

l) Dividend income

	31 March 2022	31 March 2021
Otokar Otomotiv ve Savunma Sanayi A.Ş.	2,929	2,343

m) Compensation of key management personnel

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

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

The total amount of compensation given to key management personnel of the Company as of in the first nine months of 2022 is TRY11,144 (31 March 2021: TRY6,824). All of this amount consists of short-term benefits.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2022

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below summarizes the Company's exposure to foreign currency exchange rate risk at 31 March 2022 and 31 December 2021. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

31 March 2022

	TRY equivalent (Functional currency)	USD	EUR	Other
1. Trade receivables	7,946,343	9,938	478,321	2
2. Monetary financials assets (including cash and cash equivalents)	13,617,354	2,703	831,807	1,546
3. Other	693,049	30,130	15,438	-
4. Current assets (1 + 2 + 3)	22,256,746	42,771	1,325,566	1,548
5. Monetary financial assets	78,123	-	4,790	-
6. Non-current assets (5)	78,123	-	4,790	-
7. Total assets (4 + 6)	22,334,869	42,771	1,330,356	1,548
8. Trade payables	4,119,569	69,510	187,923	17,104
9. Financial liabilities (*)	10,642,090	-	652,545	-
10. Other monetary liabilities	34,161	-	2,095	-
11. Short term liabilities (8 + 9 + 10)	14,795,820	69,510	842,563	17,104
12. Financial liabilities (*)	14,327,356	-	878,515	-
13. Other	-	-	-	-
14. Long term liabilities (12+13)	14,327,356	-	878,515	-
15. Total liabilities (11 + 14)	29,123,176	69,510	1,721,078	17,104
16. Net foreign currency (liabilities)/assets position (7 - 15)	(6,788,307)	(26,739)	(390,722)	(15,556)
17. Net monetary foreign currency (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(7,481,356)	(56,869)	(406,160)	(15,556)

(*) The Company's net foreign exchange position is mainly due to long term Euro denominated loans obtained to fund its investments. The Company is hedging for the foreign currency exchange risk arising from its Euro denominated long-term loans with export agreements signed with Ford Motor Company. The TRY equivalent of such loans amount to TRY7,245,379 as of 31 December 2021 (31 December 2021: TRY7,670,190). As of 31 March 2022, the Company has a total of TRY281,867 (31 December 2021: TRY280,042) of the product to be issued.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 1 JANUARY - 31 MARCH 2022**

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2021

	TRY equivalent (Functional currency)	USD	EUR	Other
1. Trade receivables	7,633,465	7,736	502,998	2
2. Monetary financials assets (including cash and cash equivalents)	6,504,528	1,398	429,525	1,833
3. Other	641,824	12,667	32,518	-
4. Current assets (1 + 2 + 3)	14,779,817	21,801	965,041	1,835
5. Monetary financial assets	36,159	-	2,463	-
6. Non-current assets (5)	36,159	-	2,463	-
7. Total assets (4 + 6)	14,815,976	21,801	967,504	1,835
8. Trade payables	2,912,537	74,560	131,445	8,121
9. Financial liabilities (*)	8,130,864	-	545,202	-
10. Other monetary liabilities	31,591	-	2,152	-
11. Short term liabilities (8 + 9 + 10)	11,074,992	74,560	678,799	8,121
12. Financial liabilities (*)	10,817,259	-	723,403	-
13. Other	1,036	-	71	-
14. Long term liabilities (12+13)	10,818,295	-	723,474	-
15. Total liabilities (11 + 14)	21,893,287	74,560	1,402,273	8,121
16. Net foreign currency (liabilities)/assets position (7 - 15)	(7,077,311)	(52,759)	(434,769)	(6,286)
17. Net monetary foreign (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(7,718,099)	(65,426)	(467,216)	(6,286)

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk

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

31 March 2022

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	Increase by 10 (%)	Decrease by 10 (%)
Change in USD against TRY		
USD net assets/(liabilities)	(39,161)	39,161
USD net hedged amount	-	-
USD net- gain/(loss)	(39,161)	39,161
Change in EUR against TRY		
EUR net assets/(liabilities)	(637,212)	637,212
EUR net hedged amount	724,538	(724,538)
EUR net- gain/(loss)	87,326	(87,326)
Change in other foreign currency against TRY		
Other foreign currency denominated net (liabilities)/assets	(2,457)	2,457
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	(2,457)	2,457

31 December 2021

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	<u>Increase by 10 (%)</u>	<u>Decrease by 10 (%)</u>
Change in USD against TRY		
USD net assets/(liabilities)	(68,468)	68,468
USD net hedged amount	-	-
USD net- gain/(loss)	(68,468)	68,468
Change in EUR against TRY		
EUR net (liabilities)/assets	(638,340)	638,340
EUR net hedged amount	767,019	(767,019)
EUR net- gain/(loss)	128,679	(128,679)
Change in other foreign currency against TRY		
Other foreign currency denominated net (liabilities)/assets	(924)	924
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	(924)	924

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The comparative amounts for total export and import amounts for the year ended 31 March 2022 and 2021 are as follows:

	31 March 2022	31 March 2021
Total export amount	22,468,684	12,536,606
Total import amount	13,677,775	7,484,039

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

Interest rate risk

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

	31 March 2022	31 December 2021
Fixed interest rate financial instruments		
Financial assets	15,046,361	14,044,278
Financial liabilities	15,237,396	12,917,808
Floating interest rate financial instruments		
Financial liabilities	9,829,229	6,138,419

If the interest rates of floating interest-bearing EUR 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 TRY41,890 at 31 March 2022 (31 December 2021: TRY9,511) due to higher/lower interest expense.

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

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

31 March 2022	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	24,975,994	26,086,587	4,710,492	6,046,748	13,492,190	1,837,157
Lease liabilities	90,631	109,485	6,422	19,265	77,796	6,002
Trade payables						
- Related party	3,296,920	3,302,254	3,302,254	-	-	-
- Other	10,903,081	10,973,420	10,973,420	-	-	-
Other liabilities						
- Other	490,262	490,262	490,262	-	-	-

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2021	Book value	Total contractual cash outflow	Up to 3 months	Between 3 - 12 months	Between 1 - 5 years	Longer than 5 years
Non-derivative financial instruments						
Financial liabilities	18,956,184	19,527,995	2,778,230	5,293,338	10,217,868	1,238,559
Lease liabilities	100,043	121,792	7,313	21,940	86,304	6,235
Trade payables						
- Related party	2,106,450	2,111,066	2,111,066	-	-	-
-Other	9,272,218	9,341,802	9,341,802	-	-	-
Other liabilities						
- Related party	38,246	38,246	38,246	-	-	-
-Other	220,755	220,755	220,755	-	-	-
Derivative financial liabilities						
Derivative financial instruments	1,036	1,036	-	-	1,036	-

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy table

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

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

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

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

As of 31 March 2022 and 31 December 2021, the Company’s hierarchy table for its assets and liabilities recorded at fair value are as follows:

31 March 2022

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	78,123	-
Financial assets at fair value through OCI - Otokar	60,050	-	-
Total assets	60,050	78,123	-

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

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

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27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2021

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	-	-
Financial assets at fair value through OCI - Otokar	49,913	-	-
Total assets	49,913	-	-
Liabilities at fair value			
Derivative financial liabilities	-	1,036	-
Total liabilities	-	1,036	-

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

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

28. CASH FLOW HEDGE OPERATIONS

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

Derivative financial instruments

	31 March 2022	31 December 2021
Derivative financial liabilities	-	1,036
	-	1,036

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28. CASH FLOW HEDGE OPERATIONS (Continued)

As of 31 March 2022, the Company bears the interest risk arising from the cash flows of the loans used, amounting to EUR100,000,000 with a maturity of 5 November 2026 and EUR100,000,000 with a maturity of 5 November 2028, has been subject to financial protection with interest ceiling (cap) options. The critical conditions of the swap contract, such as maturity, payment and interest change dates, are in line with the critical conditions of the foreign currency loan that is the subject of financial protection as of 31 March 2022. The fair value of the related swap transaction as of 31 March 2022 is TRY73,167 and is presented under non-current assets in the financial position statement.

The Company hedged the interest rate risk arising from cash flows related to the borrowing used as of 31 March 2022 with the maturity of 23 May 2024 amounting to EUR150,000,000 with interest rate swapping. The critical conditions of the settlement contract such as maturity, payment, interest rate change dates are in line with the critical conditions of the foreign currency borrowing, which is the subject of financial hedge as of 31 March 2022. The fair value of the interest rate swap transaction calculated as of 31 March 2022 is TRY4,956 and it is classified as long-term liabilities.

	31 March 2022	31 December 2021
Derivative financial assets	78,123	36,159
	78,123	36,159

There is an effective foreign currency cash flow hedge relationship between foreign currency long-term financial borrowings related with investment expenditures (non-derivative hedging instrument) and highly probable forecast transaction export sales receivables (hedged item). In the frame of the manufacturing agreement signed with Ford Motor Company, the Company will associate a portion of estimated export revenue from 1 April 2013 to November 2026 with long-term financial borrowings. There is no ineffective part.

	31 March 2022	31 December 2021
Cash flow hedge reserve		
Amount recognized in other comprehensive income	774,481	3,176,720
Amount recycled from other comprehensive income to statement of profit or (loss)	(647,575)	(937,654)
	126,906	2,239,066

29. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	31 March 2022	31 March 2021
Income from investing activities		
Dividend income	2,929	2,343
Gain on sale of property, plant and equipment	672	121
	3,601	2,464

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29. INCOME AND EXPENSES FROM INVESTING ACTIVITIES (Continued)

	31 March 2022	31 March 2021
Expense from investing activities		
Loss on sale of property, plant and equipment	(16,226)	-
	(16,226)	-

30. DEFERRED INCOME

	31 March 2022	31 December 2021
Short-term deferred revenue (*)	37,497	28,625
Advances received	36,451	36,105
	73,948	64,730

(*) TRY35,971 (31 December 2021: TRY20,377) of short-term deferred revenue is from the sales of extended warranty and maintenance packages.

	31 March 2022	31 December 2021
Other non-current liabilities (*)	84,413	63,183
	84,413	63,183

(*) TRY83,632 (31 December 2021: TRY62,188) of long-term deferred revenue is from the sales of extended warranty and maintenance packages.

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31. OTHER NON-CURRENT LIABILITIES

	31 March 2022	31 December 2021
Other non-current liabilities (*)	14,129	14,129
	14,129	14,129

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

32. RIGHT OF USE ASSETS

As of 31 March 2022, net book value of right-of-use assets is TRY58,833. The right of use assets and expenses of depreciation and amortization as of 31 March 2022 and 2021 are as follows:

	Buildings	Machinery and equipments	Vehicles	Total
As of 1 January 2022	14,382	23,004	31,381	68,767
For the period ended 31 March 2022				
Additions	-	-	-	-
Period depreciation and amortization expenses	(3,035)	(3,876)	(3,023)	(9,934)
As of 31 March 2022	11,347	19,128	28,358	58,833

	Buildings	Machinery and equipments	Vehicles	Total
As of 1 January 2021	18,942	33,720	16,257	68,919
For the period ended 31 March 2021				
Additions	-	-	-	-
Period depreciation and amortization expenses	(1,977)	(3,937)	(1,988)	(7,902)
As of 31 March 2021	16,965	29,783	14,269	61,017

Distribution of depreciation expenses of right of use assets as of 31 March 2022 and 31 March 2021 is follows:

	31 March 2022	31 March 2021
Cost of sales (Note 18)	6,770	5,632
Marketing expenses (Note 19)	1,878	1,575
General administrative expenses (Note 19)	789	390
Research and development expenses (Note 19)	497	305
	9,934	7,902

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33. GOVERNMENT INCENTIVES AND GRANTS

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

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

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

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

- In 2016, an investment incentive certificate amounting to TRY849,160 was obtained for the renovation and factory modernization investments at the Gölcük and Yeniköy Factories related to Transit, Transit Courier and Transit Custom models, which are currently being produced at Kocaeli Factories. Investment expenditures are continuing within the scope of this project and the contribution rate of the project to investment is 40%.
- Renewal investments of machinery and equipment used for the manufacturing and assembly of F-Trucks (trucks, tractors), Transit and Transit Custom vehicles manufactured in Eskişehir Factories, Brake Disc and Front Layout that will be started to be produced for use in Transit vehicles. An investment incentive certificate amounting to TRY903,089 was obtained on 30 March 2020 for machinery and equipment investments to be made locally to manufacture the gearbox of F-Trucks, which is a product in the heavy commercial vehicle segment, as well as line installation investments for its complex manufacturing. The contribution rate of this project to investment is 40%.
- Project Based Incentive in total amounting to TRY20,501,206 for product diversification and expansion investments covering the production of new generation commercial vehicles and batteries at Kocaeli Plants was published in the Official Gazette with the Presidential Decision dated December 4, 2020 and numbered 3273. The contribution rate to the investment to be utilized for this project is 100%.

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

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34. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND AFFILIATED COMPANIES

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

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

Rakun Mobilite A.Ş was established with 100% Ford Otosan capital to develop and sell products, technologies and solutions in the field of mobility.

Investments in subsidiaries as of 31 March 2022 are as follows:

	<u>31 March 2022</u>		<u>31 December 2021</u>	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Investment in subsidiaries				
Gembox Teknoloji Girişimleri Anonim Şirketi	100	10,000	100	10,000
Ford Otosan Netherlands BV	100	2,334	100	2,334
Rakun Mobilite A.Ş.	100	1,250	100	625
		13,584		12,959

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

35. SUBSEQUENT EVENTS

There are no disclosures that arise from the balance sheet date to the reporting date.

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