FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018

(ORIGINALLY ISSUED IN TURKISH)

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Ford Otomotiv Sanayi A.Ş.

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Ford Otomotiv Sanayi A.Ş. (the "Company"), which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements comprising a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters	How our audit addressed the Key Audit Matter
Cash Flow Hedge Accounting (Notes 2 and 28)	
Based on the manufacturing agreements with Ford Motor Company, the Company associates sales of specific models of commercial vehicles subject to export by the end of 2024 with long term loans denominated in Euros, borrowed for the investments related to manufacturing of such vehicles. Sales subject to the agreement are denominated in Euro and are affected by the TRY/EUR exchange rate fluctuations. The Company hedges the foreign exchange rate risk with the borrowings obtained in the same currency. We focused on this matter during our audit for the reasons below: - The cash flow hedge losses which are classified under equity as of 31 December 2018 amount to TRY794,287 thousand. This amount is material in terms of the financial statements. - Cash flow hedge accounting is structurally complex and its audit requires professional expertise. Mistakes that might occur when calculating and accounting for this subject may affect the financial statements significantly.	- We tested the official definition and documentation of risk management's target and strategy, which causes the Company to hedge against cash flow risk. We also tested the completeness and accuracy of data and the assumptions used in the hedge accounting work with the support of our subject matter experts. - We reviewed the effectiveness of the cash flow hedge. We tested whether the range of increase/decrease in the fair value of the revenue planned for in future and the increase/decrease in fair value of the borrowings are between 80% and 120%. - We checked the agreements related to the vehicle sales and whether sales volumes and prices of the vehicles subject to cash flow hedging agree with the budget approved by management. We checked whether methods used for calculating vehicle costs comply with the agreement. - We reviewed repayment plans for the borrowings denominated in Euro by reviewing the loan agreements and obtaining bank confirmations. We checked to what extent monthly borrowing payments cover monthly sales. - We checked the mathematical accuracy of the accounting bookings related to this subject. - We assessed the sufficiency of the financial statement disclosures related to the cash flow hedge accounting.

Key Audit Matters	How our audit addressed the Key Audit Matter
Warranty Provisions (Notes 2 and 13)	
The Company has warranty provisions amounting to TRY194,326 thousand as of 31 December 2018. We focused on this matter during our audit for the reasons below: - The warranty provision of TRY194,326 thousand is a liability in the statements. The amount of the warranty provision is material. - The Company provides a standard warranty service and optional roadside assistance, extended warranty and spare part warranty services for any vehicle sold domestically. The Company calculates the current period warranty provision based on the actual warranty expense per vehicle in the previous period. The warranty cost per vehicle is approved twice a year by management and is calculated for each vehicle model, based on the technical department's experience and warranty claims in the past also complying with the instructions of Ford Motor Company. Since the warranty cost per vehicle is determined in Euro, foreign exchange rate estimation is also included in the calculation. Fluctuation of the foreign exchange rates may affect the financial statements materially. Warranty provision calculation is determined to be a Key Audit Matter since it involves estimations bearing an inherent risk of misstatement.	- When calculating the warranty provision, the management makes assumptions based on the number of vehicles subject to warranty, the length of the warranty period, and the warranty claims in the previous periods. We tested the effectiveness of the controls during the estimation process. - We confirmed that unit managers approve the unit cost estimations per vehicle. We tested unit costs through sampling by detailed tests. - To test the data on which the estimations are based, the number of vehicles sold were agreed to the sales reports. Sales reports were reconciled to the sale accounts. - Foreign exchange rates are considered when estimating the warranty cost per vehicle. We confirmed that the foreign exchange rate, which is a forward-looking estimate used when calculating the warranty provision, is the same foreign exchange rate used in the budget approved by the management. We also evaluated the reasonableness of the warranty provision considering the fluctuations of the foreign exchange rate. - We tested the actual warranty expenses realised in the current period on a sampling basis based on the movements of the warranty provision amounting to TRY194,326 thousand. - We tested the reasonableness of the actual warranty expenses with the warranty provisions set aside in previous periods. - Warranty provisions are calculated based on cost per vehicle estimations, considering the actual claims in the past and also technically and financially planned developments. We performed a sensitivity analysis on these estimations and assessed their impact. - We assessed the sufficiency of the financial statement disclosures related to warranty expenses.

4. Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

5. Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 12 February 2019.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Beste Ortaç, SMMM
Partner

Istanbul, 12 February 2019

FORD OTOMOTİV SANAYİ A.Ş.

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STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 AND 2017

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

	Notes	Current period audited 31 December 2018	Previous period audited 31 December 2017
Assets			
Current assets		**7,395,461**	**6,827,040**
Cash and cash equivalents	4	1,392,772	1,805,945
Trade receivables			
- Due from related parties	26	2,082,263	2,057,267
- Due from third parties	7	1,058,926	1,299,746
Other receivables			
- Due from third parties	8	2,788	521
Inventories	9	1,864,645	1,152,490
Prepaid expenses	12	74,375	101,979
Other current assets	16	919,692	404,561
Derivative financial assets	28	-	4,531
Non-current assets		**5,788,979**	**5,184,700**
Financial assets	5	12,408	17,406
Trade receivables			
- Due from third parties	7	2,954	3,002
Property, plant and equipment	10	3,922,747	3,536,220
Intangible assets	11	823,342	690,337
Prepaid expenses	12	382,420	311,292
Deferred tax assets	24	644,175	626,443
Investments accounted for by the equity method	32	933	-
Total assets		**13,184,440**	**12,011,740**

Financial statements for the period ended 1 January - 31 December 2018 were approved for issue by the Board of Directors on 12 February 2019.

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 AND 2017

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

	Notes	Current period audited 31 December 2018	Previous period audited 31 December 2017
Liabilities			
Current liabilities		**7,219,612**	**6,049,677**
Short-term borrowings			
- Bank borrowings	6	2,030,806	1,061,621
Short-term portion of long-term borrowings			
- Bank borrowings	6	773,457	722,259
Trade payables			
- Due to related parties	26	703,567	895,559
- Due to third parties	7	3,319,120	2,921,390
Other payables			
- Due to related parties	26	31,321	31,438
- Due to third parties	8	34,661	56,385
Deferred income	30	13,219	10,929
Short-term provisions			
- Other provisions	13	155,227	159,614
Employee benefit liabilities	15	149,611	184,092
Current tax liabilities	24	8,530	6,390
Derivative financial liabilities	28	93	-
Non-current liabilities		**2,071,589**	**2,266,204**
Long-term borrowings			
- Bank borrowings	6	1,678,554	1,820,167
Long-term provisions			
- Provision for employment termination benefits	15	196,368	153,484
- Other provisions	13	136,680	169,285
Deferred income	30	7,479	7,450
Other non-current liabilities	31	52,508	115,631
Derivative financial liabilities	28	-	187
Equity	**17**	**3,893,239**	**3,695,859**
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		(279)	(14,001)
- Gains from financial assets measured at fair value through other comprehensive income		10,859	15,608
Other comprehensive income / (loss) to be reclassified in profit or loss			
- Losses on cash flow hedges		(794,287)	(503,120)
Restricted reserves		370,599	254,404
Retained earnings		2,244,313	2,074,147
Net profit for the period		1,683,196	1,489,983
Total liabilities and equity		**13,184,440**	**12,011,740**

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

STATEMENTS OF PROFIT OR LOSS FOR THE PERIODS ENDED 31 DECEMBER 2018 AND 2017

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

	Notes	Current period audited 1 January - 31 December 2018	Previous period audited 1 January - 31 December 2017
Continuing operations			
Revenue	18	33,292,030	25,341,290
Cost of sales	18	(29,833,459)	(22,704,095)
Gross profit		**3,458,571**	**2,637,195**
Marketing expenses	19	(507,218)	(544,303)
General administrative expenses	19	(312,143)	(249,480)
Research and development expenses	19	(368,568)	(317,192)
Other income from operating activities	21	581,129	460,462
Other expenses from operating activities	21	(566,898)	(278,508)
Profit from operating activities		**2,284,873**	**1,708,174**
Income from investing activities	29	410	363
Expenses from investing activities	29	(3,855)	(3,407)
Share of profit/(loss) of investments accounted for by the equity method	32	(94)	-
Operating income before financial income/(expense)		**2,281,334**	**1,705,130**
Financial income	22	1,981,623	562,262
Financial expenses	23	(2,501,845)	(786,231)
Profit from continuing operations before tax		**1,761,112**	**1,481,161**
Tax income/(expense) from continuing operations		**(77,916)**	**8,822**
Tax expenses for the period	24	(16,969)	(19,511)
Deferred tax (expense) / income	24	(60,947)	28,333
Net profit		**1,683,196**	**1,489,983**
Earnings per share with a nominal value Kr	**25**	**4.80 Kr**	**4.25 Kr**

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

STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 DECEMBER 2018 AND 2017

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

	Notes	Current period audited 1 January - 31 December 2018	Previous period audited 1 January - 31 December 2017
Net profit		**1,683,196**	**1,489,983**
Other comprehensive income/(expense)			
Other comprehensive income not to be reclassified to profit or loss			
(Losses)/gains on remeasurements of defined benefit plans	17	17,153	23
Gains/(losses) from financial assets measured at fair value through other comprehensive income	17	(4,998)	(1,350)
Other comprehensive income taxes not to be reclassified to profit or loss			
Taxes relating to remeasurements of defined benefit plans	17	(3,431)	(5)
Taxes relating to gains/(losses) from financial assets measured at fair value through other comprehensive income	17	249	68
Other comprehensive income to be reclassified to profit or loss			
Other comprehensive income relating to cash flow hedges	17	(373,028)	(208,664)
Other comprehensive income taxes to be reclassified to profit or loss			
Taxes relating to cash flow hedges	17	81,861	41,733
Other comprehensive (loss)		**(282,194)**	**(168,195)**
Total comprehensive income		**1,401,002**	**1,321,788**

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

STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED 31 DECEMBER 2018 AND 2017

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

				Other comprehensive income not to be reclassified in profit or loss		**Other comprehensive income to be reclassified profit or loss**		**Retained earnings**		
	Paid in capital	**Inflation adjustments on capital**	**Share premium**	**Gain/(losses) from financial assets measured at fair value through other comprehensive income**	**Gains/(losses) on remeasurements defined benefit plans**	**Cash flow hedge reserve**	**Restricted reserves**	**Accumulated profit**	**Net profit**	**Total equity**
Balances at 1 January 2017	**350,910**	**27,920**	**8**	**16,890**	**(14,019)**	**(336,189)**	**284,207**	**1,878,584**	**955,308**	**3,163,619**
Profit for the period	-	-	-	-	-	-	-	-	1,489,983	1,489,983
Other comprehensive income/(loss)	-	-	-	(1,282)	18	(166,931)	-	-		(168,195)
Total comprehensive income	-	-	-	(1,282)	18	(166,931)	-	-	1,489,983	1,321,788
Transfers	-	-	-	-	-	-	77,200	878,108	(955,308)	-
Dividends (Note 17)	-	-	-	-	-	-	(107,003)	(682,545)	-	(789,548)
Balances at 31 December 2017	**350,910**	**27,920**	**8**	**15,608**	**(14,001)**	**(503,120)**	**254,404**	**2,074,147**	**1,489,983**	**3,695,859**
Balances at 1 January 2018	**350,910**	**27,920**	**8**	**15,608**	**(14,001)**	**(503,120)**	**254,404**	**2,074,147**	**1,489,983**	**3,695,859**
Profit for the period	-	-	-	-	-	-	-	-	1,683,196	1,683,196
Other comprehensive income/(loss)	-	-	-	(4,749)	13,722	(291,167)	-	-	-	(282,194)
Total comprehensive income	-	-	-	(4,749)	13,722	(291,167)	-	-	1,683,196	1,401,002
Transfers	-	-	-	-	-	-	118,608	1,371,375	(1,489,983)	-
Dividends (Note 17)	-	-	-	-	-	-	(2,413)	(1,201,209)	-	(1,203,622)
Balances at 31 December 2018	**350,910**	**27,920**	**8**	**10,859**	**(279)**	**(794,287)**	**370,599**	**2,244,313**	**1,683,196**	**3,893,239**

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

STATEMENTS OF CASH FLOWS FOR THE PERIODS ENDED 31 DECEMBER 2018 AND 2017

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

	Notes	Current period audited 31 December 2018	Previous period audited 31 December 2017
Cash flows generated from/(used in) operating activities		**2,176,407**	**2,158,569**
Net profit for the period		1,683,196	1,489,983
Adjustments to reconcile profit or loss		**1,718,170**	**1,176,370**
Adjustments for depreciation and amortisation expense	10.11	569,203	473,624
Adjustments for impairment loss of inventories	9	18,941	(1,326)
Adjustments for provisions related with employee benefits		40,816	115,416
Adjustments for lawsuit and/or penalty provisions	13	11,084	12,706
Adjustments for warranty provisions	13	106,426	188,087
Adjustments for other provisions		(3,459)	8,041
Adjustments for dividend income	29	(410)	(351)
Adjustments for interest income	22	(104,777)	(74,896)
Adjustments for interest expense	23	52,952	42,394
Adjustments for tax expenses	24	77,916	(8,822)
Adjustments for unearned financing income	21	(185,498)	(139,378)
Adjustments for deferred financing expense	21	341,463	177,790
Adjustments for loss on sales of property, plant and equipment	29	3,855	3,395
Other adjustments for which cash effects are investing or financing cash flow		789,564	379,690
Undistributed profits of investments accounted for by the equity method	32	94	-
Changes in working capital		**(876,546)**	**(332,578)**
Decrease/(increase) in trade receivable		200,967	(1,213,698)
(Increase)/decrease in inventories		(734,965)	(129,440)
(Increase)/decrease in prepaid expenses		21,099	(42,968)
Increase/(decrease) in trade payable		231,959	1,211,171
(Increase)/decrease in other assets		(512,961)	(195,396)
Increase/(decrease) in other liabilities		(82,645)	37,753
Cash flows generated from operations		**2,524,820**	**2,333,775**
Interest paid		(326,558)	(164,923)
Interest received		159,277	127,813
Payments related with provisions for employee benefits	15	(15,260)	(10,442)
Payments related with other provisions		(151,043)	(116,290)
Taxes paid		(14,829)	(11,364)
Cash flows used in investing activities		**(1,144,606)**	**(938,317)**
Proceeds from sales of property, plant and equipment		46,090	571
Purchase of property, plant and equipment		(889,983)	(590,897)
Purchase of intangible assets		(235,473)	(215,383)
Cash advances given and payables		(64,623)	(132,959)
Dividends received	29	410	351
Cash outflows from acquisition or share or debt instruments of other enitities		(1,027)	-
Cash flows (used in)/generated from financing activities		**(1,443,697)**	**(605,875)**
Proceeds from borrowings		2,759,195	2,304,890
Repayment of borrowings		(3,051,482)	(2,141,327)
Dividends paid	17	(1,203,622)	(789,548)
Interest paid		(53,842)	(52,251)
Interest received		106,054	72,361
Net (decrease)/increase in cash and cash equivalents		**(411,896)**	**614,377**
Cash and cash equivalents at the beginning of the period		**1,802,917**	**1,188,540**
Cash and cash equivalents at the end of the period	**4**	**1,391,021**	**1,802,917**

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

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

1. ORGANIZATION AND NATURE OF THE OPERATIONS

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

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

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

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

	Average		**Period End**	
	2018 December	**2017 December**	**2018 December**	**2017 December**
Hourly	8,383	8,172	8,086	8,847
Salaried	2,584	2,663	2,512	2,654
	10,967	**10,835**	**10,598**	**11,501**

Research and development operations which are also subject to service export is conducted with 1,078 employees in Sancaktepe branch, conducted with 224 employees in R&D centre in Kocaeli plant, and conducted with 111 employees in R&D centre in Eskişehir İnönü plant, totally 1,413 employees as of 31 December 2018 (31 December 2017: 1,508).

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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

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

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

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

Going concern

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

Comparatives of prior periods' financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company at 31 December 2018 has been provided with the comparative financial information of 31 December 2017 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the interim period between 1 January and 31 December 2018 have been provided with the comparative financial information, for the period between 1 January 2017 and 31 December 2017.

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 2018 and related to its own activity.

(a) The new standards, amendments and interpretations which are effective as at 31 December 2018 are as follows:

- TFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The effects of the amendment are explained in the related notes and accounting policies.

- TFRS 15, 'Revenue from contracts with customers'; Effective for annual reporting periods beginning on or after 1 January 2018. The compliance effort with Accepted Accounting Standards in the United States was intended to provide financial reporting of the resulting new standard revenue and comparability of the total income of the financial statements on a worldwide basis. The effects of the amendment are explained in the related notes and accounting policies.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

- Amendment to TFRS 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. The effects of the amendment are explained in the related notes and accounting policies.

- Amendment to TAS 40, "Investment property" relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- Amendments to TFRS 2, "Share based payments" on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- TFRS 1, "First-time adoption of TFRS"; regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10 effective 1 January 2018.

- TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

The amendments do not have an impact on the financial position or performance of the Company.

- TFRS 22, "Foreign currency transactions and advance consideration", effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. The amendments will not have an impact on the financial position or performance of the Company.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

(b) The new standards, amendments and interpretations which are not yet effective as at 31 December 2018 are as follows:

- Amendment to TFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

- Amendment to TAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

- TFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. As of the report date, the Company's studies on the impact of TFRS 16 on financial statements are ongoing. The Company's activities as a lessor are not material.

- IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37, 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

- Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

  • TFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.

  • TFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

  • TAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.

  • TAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

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

- Amendments to TAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

  • use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and

  • recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

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

- Effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements'and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs.

  i) use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting.
  ii) clarify the explanation of the definition of material; and

  iii) incorporate some of the guidance in TAS 1 about immaterial information.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies

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

Cash and cash equivalents

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

Trade receivables, impairment loss and expected credit losses

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

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

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

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

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

Inventories

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

Trade payables

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

Property, plant and equipment

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

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

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

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).

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Intangible assets

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

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

The estimated useful lifetimes of such assets are as follows:

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

Impairment of long-lived assets

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

Financial assets

Classification and Measurement

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

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

Share premium

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

Share capital and dividends

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

Taxes on income

Taxes include current period income taxes and deferred taxes.

<u>Current period income tax</u>

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.

<u>Deferred tax</u>

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

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

Current and deferred tax

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

Revenue recognition

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

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

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

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- Company can identify each party's rights regarding the goods or services to be transferred,
- Company can identify the payment terms for the goods or services to be transferred,
- The contract has commercial susbtance,
- 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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Goods & services sales

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

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

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

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

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.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Revenue from extended warranty and maintenance package

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

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

Dividend and interest income

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

Foreign currency transactions and balances

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

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

	TRY/USD	**TRY/EUR**	**TRY/GBP**
31 December 2018	**5,2609**	**6,0280**	**6,6528**
31 December 2017	3,7719	4,5155	5,0803

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial instruments and financial risk management

Credit risk

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

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

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

Price risk

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

Liquidity risk

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

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.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Funding risk

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

Foreign exchange risk

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

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

Capital risk management

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

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

The Company monitors capital on the basis of the "net financial debt to tangible capital ratio". This ratio is calculated as net financial debt divided by tangible capital. Net financial debt is calculated as total short and long term borrowings minus cash and cash equivalents, whereas tangible equity is calculated as equity, as shown in the statement of financial position minus intangible assets. According to the decision of Company management, this ratio is expected not to exceed 1.25. Due to fluctuation in exchange rates, the ratio exceeded 1.25 in 2018 and the Company's management continues to work on different methods to monitor the capital structure as well as the cash generation capacity of the Company (Note 13).

	31 December 2018	**31 December 2017**
Net financial debt	3,090,045	1,798,102
Total tangible equity	3,069,897	3,005,522
Net financial debt / tangible equity ratio	**1.01**	**0.60**

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Fair value of financial instruments

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

- In the principal market for the asset or liability, or

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

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

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

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

Financial assets

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

Financial liabilities

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

Cash flow hedge accounting

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

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

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

Investments accounted for by the equity method

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

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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Provision for employee benefits

a) Defined benefit plan

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

b) Defined contribution plan

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

c) Other employee benefits

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

Provisions

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

Provisions for sales premium

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

Warranty expenses provision

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Research and development expenses

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

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

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

Leasing - the Company as the lessee

Operating leases

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

Leasing - the Company as the lessor

Operational leasing

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

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 thats person's familiy 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).

Earnings per share

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Reporting of cash flows

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

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

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

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

Contingent assets and liabilities

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

Subsequent events

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

Offsetting

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

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.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Accounting policies, changes in accounting estimates and errors

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

The Company applied first time application requirements of TFRS 15 "Revenue From Contracts with Customers" and "TFRS 9 Financial Assets" out of the new standards, amendments and interpretations effective from 1 January 2018 in line with the requirement of transition of the related standards.

The accounting policy changes and the impact of first time application of the standard is as follows:

2.4.1 TFRS 15 "Revenue From Contracts with Customers"

Revenue recognition

Transition to TFRS 15 "Revenue from contracts with customers

The Company assessed the cumulative effect of initial application of TFRS 15 "Revenue From Contracts with Customers" which replaced "TAS 18 Revenue" retrospectively ("cumulative effect approach") as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

2.4.2 TFRS 9 "Financial Instruments"

The changes in the classification of financial assets and liabilities in accordance with TFRS 9 is explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets.

Financial assets	**Classification in accordance with TAS 39**	**New classification in accordance with TFRS 9**
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Financial assets	Available for sale	Fair value through other comprehensive income

Financial liabilities	**Classification in accordance with TAS 39**	**New classification in accordance with TFRS 9**
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

First time adoption of TFRS 9 "Financial assets"

The Company assessed the cumulative effect of initial application of TFRS 9 "Financial Instruments" which replaced "TAS 39 Financial Instruments:Recognition and Measurement" retrospectively within the scope of exception explained in the paragraph of 7.2.15 of the standard as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

2.5 Significant accounting estimates and decisions

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

(a) In calculation of the employee benefit provision actuarial assumptions relating to turnover ratio, discount rate and salary increase are used. The details regarding the calculation are disclosed in provision for employee benefits (Note 15).
(b) In determination of the impairment of trade receivables, the factors such as debtor credibility, historical payment performance and debt restructuring is considered (Note 7).
(c) Discounted inventory price list is used to calculate inventory impairment. Where the sales price cannot be predicted, technical personnel's opinion and inventory waiting time is considered. If expected net realizable value is less than cost, the Company should allocate provisions for inventory impairment (Note 9).
(d) In determination of the legal case provisions, the possibilities of losing the case and the liabilities that will arise if the case is lost is evaluated by the Company's Legal Counsellor and by the Management team taking into account expert opinions. The management determines the amount of the provisions based on the best forecasts.
(e) In calculation of the warranty provision, the Company considers the historical warranty expenses incurred addition to planned technical and financial improvements to estimate the possible warranty expense per vehicle. Provision calculations are realistically performed and based on vehicle quantity, warranty period and historical claims (Note 13).
(f) Deferred tax assets are recognized when the occurrence of taxable profit is probable in the forthcoming years. Deferred tax asset is calculated over any temporary differences in cases when the occurrence of taxable profit is probable, taken into consideration of tax advantages obtained within the context of investment incentive certificates. Deferred tax asset is recorded as of 31 December 2018 and 31 December 2017 since presumptions that the Company will have taxable profit in the forthcoming periods are found to be sufficient (Note 24).
(g) The Company recognizes depreciation and amortization for its property, plant and equipment and intangibles by taking into account their useful lives that are stated in Note 2 (Notes 10 and 11).
(h) Development costs related to continuing projects are capitalized and the Company management perform impairment test regarding those capitalized costs annually. As of 31 December 2018 and 31 December 2017, there is no impairment determined related to development costs in progress (Note 11).

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

3. SEGMENT REPORTING

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

4. CASH AND CASH EQUIVALENTS

The maturity period of time deposits is up to three months and there is no blockage/restriction on cash and cash equivalents. The weighted average interest rate for foreign currency denominated time deposits is 1.85% (31 December 2017: 2.24%) and the weighted average interest rate for the TRY time deposits is 23.48% (31 December 2017: 14.91%).

	31 December 2018	31 December 2017
Banks - TRY time deposits	875,225	724,578
Banks - foreign currency time deposits	486,369	1,039,955
Banks - TRY demand deposits	27,296	35,399
Banks - foreign currency demand deposits	2,131	2,985
Cash and cash equivalents in the cash flow statement	**1,391,021**	**1,802,917**
Interest income accrual	1,751	3,028
	1,392,772	**1,805,945**

5. FINANCIAL ASSETS

	31 December 2018		31 December 2017	
	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	12,408	0.59	17,406
		12,408		**17,406**

(*) The Company's shareholding in Otokar was stated at market value at 31 December 2018 and 31 December 2017 which is assumed to approximate its fair value.

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

6. FINANCIAL LIABILITIES

Short-term borrowings

	31 December 2018		31 December 2017	
	Effective interest rate (%)	**TRY Amount**	**Effective interest rate (%)**	**TRY Amount**
- Euro	0.74	2,020,474	0.84	910,746
- TRY	-	10,332	-	-
- USD	-	-	2.41	150,875
		2,030,806		**1,061,621**
Short-term portion of long-term borrowings				
- Euro	1.61	773,457	1.80	722,259
		773,457		**722,259**
Total short-term borrowings		**2,804,263**		**1,783,880**

Long-term borrowings

	31 December 2018		31 December 2017	
	Effective interest rate (%)	**TRY Amount**	**Effective interest rate (%)**	**TRY Amount**
- Euro	1.61	1,678,554	1.62	1,820,167
		1,678,554		**1,820,167**

The payment schedules of long-term bank borrowings as of 31 December 2018 and 31 December 2017 are as follows:

Payment period	**31 December 2018**	**31 December 2017**
2019	-	551,302
2020	670,934	489,827
2021	486,232	366,299
2022	243,671	186,965
2023	186,997	150,517
2024	90,720	75,257
	1,678,554	**1,820,167**

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TRY2,201,762 (31 December 2017: TRY1,432,410) (Note 13).

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

6. FINANCIAL LIABILITIES (Continued)

The movement of financial liabilities as of 31 December 2018 and 2017 is as follows:

	2018	2017
1 January	3,604,047	2,852,130
Effect of cash flows	(292,287)	163,283
Unrealised foreign exchange differences	1,171,947	588,355
Change in accrual of interest	(890)	279
31 December	**4,482,817**	**3,604,047**

7. TRADE RECEIVABLES AND PAYABLES

	31 December 2018	31 December 2017
Short - term trade receivables		
Trade receivables	1,086,298	1,317,031
Doubtful receivables	4,533	4,533
Less: Unearned credit finance income	(27,372)	(17,285)
	1,063,459	**1,304,279**
Less: Provision for doubtful receivables	(4,533)	(4,533)
	1,058,926	**1,299,746**

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2017: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2017: 70 days) and discounted by 2.23% monthly effective interest rate (31 December 2017: 1.32%).

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 December 2018	31 December 2017
Long - term trade receivables		
Deposits and guarantees given	2,954	3,002
	2,954	**3,002**

	31 December 2018	31 December 2017
Trade payables		
Trade payables	3,364,101	2,941,886
Less: Unearned credit finance expense	(44,981)	(20,496)
	3,319,120	**2,921,390**

The average turnover of trade payables is 60 days (31 December 2017: 60 days) and discounted by 2.23% monthly effective interest rate (31 December 2017: 1.32%).

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

The maximum exposure of the Company to credit risk as of 31 December 2018 and 31 December 2017 is as follows:

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

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

	Trade receivables		Other receivables		
31 December 2017	**Related party**	**Other**	**Related party**	**Other**	**Deposit in bank**
The maximum of credit risk exposed at the reporting date (Note 26, 7, 8, 4)	2,057,267	1,299,746	-	521	1,802,917
- The maximum of credit risk covered by guarantees	160,000	1,298,956	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	2,010,378	1,298,698	-	521	1,802,917
Net book value of financial assets that are overdue but not impaired	46,889	1,048	-	-	-
- Amount of risk covered by guarantees	-	258	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533	-	-	-
- Provision for impairment (-)	-	(4,533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

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

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

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

	Trade receivables	
31 December 2017	**Related party**	**Other**
1-30 days overdue	37,591	261
1-3 months overdue	6,493	464
3-12 months overdue	2,440	308
1-5 years overdue	365	15
	46,889	**1,048**
Risk covered by guarantees	-	258

8. OTHER RECEIVABLES AND PAYABLES

Other receivables	**31 December 2018**	**31 December 2017**
Other miscellaneous receivables	2,788	521
	2,788	**521**

Other payables	**31 December 2018**	**31 December 2017**
Taxes and funds payable	19,624	42,234
Sales premium accruals	8,033	8,359
Other	7,004	5,792
	34,661	**56,385**

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

9. INVENTORIES

	31 December 2018	31 December 2017
Raw materials	638,408	410,330
Finished goods	412,139	214,519
Goods in transit	328,890	189,613
Import vehicles	90,427	114,479
Vehicle spare parts	277,117	169,971
Spare parts	40,682	25,014
Other	99,829	32,470
	1,887,492	**1,156,396**
Less: Provision for impairment of finished goods and vehicle spare parts	(22,847)	(3,906)
	1,864,645	**1,152,490**

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:

	2018	2017
1 January	**3,906**	**5,232**
Change within the period	18,941	(1,326)
31 December	**22,847**	**3,906**

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).

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

10. PROPERTY, PLANT AND EQUIPMENT

1 January 2018	Land	Land improvements	Buildings	Machine & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Construction in progress	Total
Cost	12,269	163,711	977,033	2,600,505	2,386,432	407,829	123,031	114,972	6,785,782
Accumulated depreciation	-	(77,166)	(401,565)	(1,270,803)	(1,226,214)	(251,898)	(21,916)	-	(3,249,562)
Net book value	**12,269**	**86,545**	**575,468**	**1,329,702**	**1,160,218**	**155,931**	**101,115**	**114,972**	**3,536,220**
For the period ended 31 December 2018									
Opening net book value	12,269	86,545	575,468	1,329,702	1,160,218	155,931	101,115	114,972	3,536,220
Additions	-	10,595	14,836	239,836	490,413	39,792	9,162	98,573	903,207
Transfers	-	14,607	9,521	33,518	16,975	3,342	3,532	(81,495)	-
Disposals	-	(9)	(767)	(10,524)	(3,618)	(1,612)	(67,499)	-	(84,029)
Depreciation charge	-	(6,305)	(31,468)	(151,109)	(234,985)	(32,982)	(9,886)	-	(466,735)
Disposals from Accumulated depreciation	-	9	767	10,185	1,825	1,315	19,983	-	34,084
Closing net book value	**12,269**	**105,442**	**568,357**	**1,451,608**	**1,430,828**	**165,786**	**56,407**	**132,050**	**3,922,747**
31 December 2018									
Cost	12,269	188,904	1,000,623	2,863,335	2,890,202	449,351	68,226	132,050	7,604,960
Accumulated depreciation	-	(83,462)	(432,266)	(1,411,727)	(1,459,374)	(283,565)	(11,819)	-	(3,682,213)
Net book value	**12,269**	**105,442**	**568,357**	**1,451,608**	**1,430,828**	**165,786**	**56,407**	**132,050**	**3,922,747**

The Company compared the borrowing cost of investment loans in foreign currency to the market loan interest denominated in TRY and foreign exchange differences and interest costs equal to an amount of TRY9,355 (31 December 2017: TRY9,857) has been recognized under property, plant and equipment according to the cumulative approach within the context of TAS 23 as of 31 December 2018

There is no collateral, pledge or mortgage on tangible assets as of 31 December 2018 and 2017.

(*) The Company makes a part of its truck sales with buyback commitment and trucks sold in this scope are monitored in "Vehicles" under Property, Plant and Equipment and their cost value amounts to TRY46,359 (31 December 2017: TRY103,636).

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

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

1 January 2017	**Land**	**Land improvements**	**Buildings**	**Machine & equipment**	**Models & moulds**	**Fixture & furniture**	**Vehicles**	**Contsruction in progress**	**Total**
Cost	12,269	155,317	938,595	2,406,475	2,097,201	382,723	91,150	93,680	6,177,410
Accumulated depreciation	-	(71,313)	(370,831)	(1,145,067)	(1,053,373)	(219,873)	(14,208)	-	(2,874,665)
Net book value	**12,269**	**84,004**	**567,764**	**1,261,408**	**1,043,828**	**162,850**	**76,942**	**93,680**	**3,302,745**
For the period ended 31 December 2017									
Opening net book value	12,269	84,004	567,764	1,261,408	1,043,828	162,850	76,942	93,680	3,302,745
Additions	-	8,346	14,953	179,274	282,925	25,754	31,467	90,737	633,456
Transfers	-	48	24,209	30,378	8,505	176	6,129	(69,445)	-
Disposals	-	-	(724)	(15,622)	(2,199)	(824)	(5,715)	-	(25,084)
Depreciation charge	-	(5,853)	(31,458)	(140,655)	(175,000)	(32,667)	(10,382)	-	(396,015)
Disposals from accumulated depreciation	-	-	724	14,919	2,159	642	2,674	-	21,118
Closing net book value	**12,269**	**86,545**	**575,468**	**1,329,702**	**1,160,218**	**155,931**	**101,115**	**114,972**	**3,536,220**
31 December 2017									
Cost	12,269	163,711	977,033	2,600,505	2,386,432	407,829	123,031	114,972	6,785,782
Accumulated depreciation	-	(77,166)	(401,565)	(1,270,803)	(1,226,214)	(251,898)	(21,916)	-	(3,249,562)
Net book value	**12,269**	**86,545**	**575,468**	**1,329,702**	**1,160,218**	**155,931**	**101,115**	**114,972**	**3,536,220**

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

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The allocation of depreciation expense as of 31 December 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
Cost of production (Note 18)	431,261	367,067
Research and development expenses (Note 19)	17,817	16,328
General administrative expenses (Note 19)	9,387	8,221
Marketing expenses (Note 19)	3,028	2,971
Associated with construction in progress	5,242	1,428
	466,735	**396,015**

11. INTANGIBLE ASSETS

1 January 2018	Rights	Development cost	Development cost in progress	Other	Total
Cost	55,093	652,389	330,166	7,556	1,045,204
Accumulated amortisation	(45,405)	(303,302)	-	(6,160)	(354,867)
Net book value	**9,688**	**349,087**	**330,166**	**1,396**	**690,337**
For the period ended 31 December 2018					
Opening net book value	9,688	349,087	330,166	1,396	690,337
Additions	17,137	121,323	96,747	266	235,473
Transfers	-	264,136	(264,136)	-	-
Amortisation charge	(11,848)	(90,320)	-	(300)	(102,468)
Closing net book value	**14,977**	**644,226**	**162,777**	**1,362**	**823,342**
31 December 2018					
Cost	72,230	1,037,848	162,777	7,822	1,280,677
Accumulated amortisation	(57,253)	(393,622)	-	(6,460)	(457,335)
Net book value	**14,977**	**644,226**	**162,777**	**1,362**	**823,342**

There is no fully depreciated intangible assets as of 31 December 2018. As of 31 December 2018, there is no capitalized interest costs and foreign exchange differences in accordance with TAS 23 (31 December 2017: None).

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

11. INTANGIBLE ASSETS (Continued)

1 January 2017	**Rights**	**Development cost**	**Development cost in progress**	**Other**	**Total**
Cost	40,352	653,879	129,107	6,483	829,821
Accumulated amortisation	(36,497)	(235,286)	-	(5,475)	(277,258)
Net book value	**3,855**	**418,593**	**129,107**	**1,008**	**552,563**
For the period ended 31 December 2017					
Opening net book value	3,855	418,593	129,107	1,008	552,563
Additions	14,741	(1,490)	201,059	1,073	215,383
Amortisation charge	(8,908)	(68,016)	-	(685)	(77,609)
Closing net book value	**9,688**	**349,087**	**330,166**	**1,396**	**690,337**
31 December 2017					
Cost	55,093	652,389	330,166	7,556	1,045,204
Accumulated amortisation	(45,405)	(303,302)	-	(6,160)	(354,867)
Net book value	**9,688**	**349,087**	**330,166**	**1,396**	**690,337**

The allocation of amortisation charges of intangible assets relating to 31 December 2018 and 2017 is as follows:

	31 December 2018	**31 December 2017**
Cost of production (Note 18)	92,758	69,734
General administrative expenses (Note 19)	6,236	4,502
Research and development expenses (Note 19)	2,798	2,804
Marketing expenses (Note 19)	653	472
Associated with construction in progress	23	97
	102,468	**77,609**

12. PREPAID EXPENSES

Short - term prepaid expenses	**31 December 2018**	**31 December 2017**
Advances given for inventories	52,664	86,338
Other prepaid expenses	21,711	15,641
	74,375	**101,979**

Long - term prepaid expenses	**31 December 2018**	**31 December 2017**
Advances given for investments (*)	365,428	300,805
Other prepaid expenses	16,992	10,487
	382,420	**311,292**

(*) Advances given for investments are related to the Company's new vehicle investments. TRY250,412 (31 December 2017: TRY244,988) is given to domestic vendors as mould advances and TRY115,016 (31 December 2017: TRY55,817) is given for the new project investments.

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

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 December 2018	31 December 2017
Warranty expense provision	107,972	108,900
Provisions for sales premium (*)	47,255	50,714
	155,227	**159,614**

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

Long-term provisions

	31 December 2018	31 December 2017
Warranty expense provision	86,354	122,625
Provisions for lawsuits	50,326	46,660
	136,680	**169,285**

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

	2018	2017
1 January	**46,660**	**39,295**
Paid during the period	(7,418)	(5,341)
Additions during the period	11,084	12,706
31 December	**50,326**	**46,660**

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

	2018	2017
1 January	**231,525**	**154,387**
Paid during the period	(143,625)	(110,949)
Additions during the period (Note 19)	106,426	188,087
31 December	**194,326**	**231,525**

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

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

Letters of guarantee and letters of credit	**31 December 2018**	**31 December 2017**
Letters of guarantee given to financial institutions due to bank loans	2,201,762	1,432,410
Letters of guarantee given to customs	64,871	49,762
Letters of guarantees given to other parties	15,110	14,102
	2,281,743	**1,496,274**

Letters of guarantee given

	31 December 2018		**31 December 2017**	
	Original currency	**TRY amount**	**Original currency**	**TRY amount**
Euro	375,527	2,263,678	293,866	1,326,954
USD	13	68	40,013	150,925
TRY	17,997	17,997	18,395	18,395
		2,281,743		**1,496,274**

The allocation of collaterals, pledges and mortgages as of 31 December 2018 and 31 December 2017 as follows:

Collaterals, pledges and mortgages given by the Company	**31 December 2018**	**31 December 2017**
A. Total amount of collaterals/pledges/mortages given for its own legal entity	2,281,743	1,496,274
B. Total amount of collaterals/pledges/mortgages given for participations included in entire consolidation	-	-
C. Total amount of collaterals/pledges/mortgages given to assure debts of third parties, for the purpose of conducting the business activities	-	-
D. Total amount of other collaterals/pledges/mortgages given		
i Total amount of collaterals/pledges/mortgages given for the parent company		- -
ii. Total amount of collaterals/pledges/mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals/pledges/mortages given for third parties that do not fall into C section	-	-
	2,281,743	**1,496,274**

As of 31 December 2018 and 31 December 2017, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

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

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

Letters of guarantee received

	31 December 2018		31 December 2017	
	Original currency	**TRY amount**	**Original currency**	**TRY amount**
TRY	99,778	99,778	213,657	213,657
Euro	12,955	78,093	13,358	60,318
USD	251	1,320	4,602	17,358
		179,191		**291,333**

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 December 2017. As of 31 December 2018, due to the high depreciation of the Turkish Lira, this rate has been above the specified limits and the Company has submitted a waiver request from the related institutions for long-term credit agreements and received positive turn. In the case of a high devaluation environment, the ratios to be calculated on the cash generation capacity of the Company are being discussed instead of the financial ratios based on the Turkish Lira denominated equity.

14. COMMITMENTS

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

a) Based on the one year credit agreements made in 2018, amounting to Euro 40,000,000 with Yapı Kredi and amounting to Euro 60,000,000 with İş Bankası A.Ş., totally Euro 100,000,000, the Company is required to ensure that its export proceeds up to an amount equal to Euro 80,000,000 is transacted through Yapı Kredi and Euro 120,000,000 is transacted through İş Bankası, totalling Euro 200,000,000 for the year 2018. As of 31 December 2018, these commitments have been fulfilled.

b) The Company, also committed to Türkiye İhracat Kredi Bankası A.Ş (Eximbank);

- With 8 months term credit amounting to Euro 40,000,000 used in May 2018 an export amount of Euro 40,000,000,
- With 8 months term credit amounting to Euro 30,000,000 used in June 2018 an export amount of Euro 30,000,000,
- With 8 months term credit amounting to Euro 40,000,000 used in July 2018 an export amount of Euro 40,000,000,
- With 8 months term credit amounting to Euro 70,000,000 used in August 2018 an export amount of Euro 70,000,000,
- With 8 months term credit amounting to Euro 35,000,000 used in September 2018 an export amount of Euro 35,000,000,
- With 8 months term credit amounting to Euro 50,000,000 used in October 2018 an export amount of Euro 50,000,000,
- With 8 months term credit amounting to Euro 40,000,000 used in November 2018 an export amount of Euro 40,000,000,

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

14. COMMITMENTS (Continued)

Operational lease commitments

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

	31 December 2018	31 December 2017
Within 1 year	18,471	8,282
Between 1 year to 5 years	24,071	10,053
	42,542	**18,335**

15. EMPLOYEE BENEFITS

Liabilities for employee benefit obligations

	31 December 2018	31 December 2017
Salaries and social charges payable	72,350	110,644
Withholding income tax payable	38,877	30,298
Social security premiums payable	34,523	40,402
Other	3,861	2,748
	149,611	**184,092**

Provision for employee benefits

	31 December 2018	31 December 2017
Provision for employment termination benefits	170,925	131,726
Provision for unused vacation pay liability	25,443	21,758
	196,368	**153,484**

Provision for employment termination benefits:

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

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

The amount payable consists of one month's salary limited to a maximum of full TRY6,017.60 for each year of service as of 1 January 2019 (1 January 2018: Full TRY5,001.76).

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

15. EMPLOYEE BENEFITS (Continued)

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

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

	31 December 2018	31 December 2017
Net discount rate	5.65	4.95
Turnover rate to estimate the probability of retirement (%)	96.05	95.96

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Since the Company calculates the reserve for employee benefits once a year, the maximum amount of full TRY6,017.60 which was effective as of January 1, 2019 (1 January 2018: Full TRY5,001.76) has been used in the calculations.

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

	2018	2017
1 January	**131,726**	**110,025**
Interest cost	15,504	11,850
Current year service cost	56,108	20,316
Paid during the period	(15,260)	(10,442)
Actuarial gains	(17,153)	(23)
31 December	**170,925**	**131,726**

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of 31 December 2018 is below:

	Net discount rate		Turnover rate related to the probability of retirement	
Sensitivity level	**%0.5 baz decrease**	**%0.5 baz increase**	**%0.5 baz decrease**	**%0.5 baz increase**
Rate (%)	(5.1)	(6.1)	95.5	96.5
Change in provision for employee benefits	8,156	(7,542)	(6,146)	6,718

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

16. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
VAT to be deducted (*)	890,731	371,827
Prepaid taxes and withholding	15,643	12,682
Other	13,318	20,052
	919,692	**404,561**

(*) VAT to be deducted includes export VAT receivables related to November and December 2018. VAT return for November 2018 amounting to TRY276,794 has been collected in January 2019.

17. EQUITY

The composition of the Company's paid-in capital as of 31 December 2018 and 31 December 2017 is as follows:

Shareholders	Share group	31 December 2018	Shareholders percentage (%)	31 December 2017	Shareholders percentage (%)
Koç Holding A.Ş.	B	134,953	38.46	134,953	38.46
Temel Ticaret ve Yatırım A.Ş.	B	2,356	0.67	2,356	0.67
Ford Motor Company	C	143,997	41.04	143,997	41.04
Vehbi Koç Vakfı	A	3,559	1.01	3,559	1.01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3,259	0.93	3,259	0.93
Other (Publicly traded)	A	62,786	17.89	62,786	17.89
		350,910	**100**	**350,910**	**100**
Inflation adjustment to share capital		**27,920**		**27,920**	
Inflation adjusted paid in capital		**378,830**		**378,830**	

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 2017: 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 TRY370,599 as of 31 December 2018 (31 December 2017: TRY254,404).

17. EQUITY (Continued)

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

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

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

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

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

In accordance with the Ordinary General Assembly Meeting dated as of March 19, 2018, the Company has decided to distribute dividends at the rate of 228% gross (net 193.80), with a total amount of TRY800,075 as full TRY2.28 gross (Kr 193.80 net) for each share with a value of full TRY1. The Company made the dividend payment in April 2018 and in accordance with the Ordinary General Assembly Meeting dated as of November 16, 2018, the Company has decided to distribute dividends at the rate of 115% gross (net 97.75), with a total amount of TRY403,547 as full TRY1.15 gross (Kr 97.75 net) for each share with a value of full TRY1. The Company made the dividend payment in November 2018 (In April 2017, 114% of the gross TRY1 share (TRY 96.90 Kr) will be TRY400,037 and in November 2017, the full TRY1 share will be TRY1.11 gross (net 94.35 Kr) amounting to TRY389,511; a total of TRY789,548 cash dividend was distributed).

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

17. EQUITY (Continued)

In accordance with Communiqué No: II-14,1, "Communiqué on the Principles of Financial Reporting In Capital Markets", equity schedule at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
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	10,859	15,608
Losses on cash flow hedge	(794,287)	(503,120)
Losses on remeasurements of defined benefit plans	(279)	(14,001)
Restricted reserves	***370,599***	***254,404***
- Legal reserves	370,599	254,404
Retained earnings	***2,244,313***	***2,074,147***
- Inflation adjustment to equity	428,301	428,301
- Extraordinary reserves	1,816,012	1,645,846
Net income for the period	**1,683,196**	**1,489,983**
Total equity	**3,893,239**	**3,695,859**

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended 31 December 2018 and 31 December 2017 are as follows:

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

31 December 2017	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910	378,830	27,920
Legal reserves	254,404	313,157	58,753
Extraordinary reserves	1,645,846	2,014,991	369,145
Share premium	8	361	353
Other reserves	-	50	50
	2,251,168	**2,707,389**	**456,221**

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

17. EQUITY (Continued)

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

Otokar shares which are publicly traded in BIST are valued at their closing price as of 31 December 2018 and 31 December 2017. As of 31 December 2018, fair value change (negative) amounting to TRY(4,749) net of deferred tax, (31 December 2017: TRY(1,282)) 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:

	2018	**2017**
1 January	**(501,513)**	**(333,318)**
(Losses) from financial assets measured at fair value through other comprehensive income	(4,749)	(1,282)
Actuarial gains/(losses)	13,722	18
Losses on cash flow hedges	(291,167)	(166,931)
31 December	**(783,707)**	**(501,513)**

18. REVENUE AND COST OF SALES

	2018	**2017**
Export sales	27,303,441	17,830,091
Domestic sales	6,686,164	8,272,097
Other sales	178,762	124,762
Less: Discounts	(876,337)	(885,660)
	33,292,030	**25,341,290**

Units of vehicle sales

	2018			**2017**		
	Domestic sales	**Export sales**	**Total sales**	**Domestic sales**	**Export sales**	**Total sales**
Transit Custom	4,690	168,174	172,864	7,642	157,502	165,144
Transit	16,350	120,154	136,504	29,080	100,181	129,261
Transit Courier	19,659	38,553	58,212	35,549	37,864	73,413
Passenger vehicles	18,987	160	19,147	33,543	482	34,025
Ford Trucks	3,526	1,817	5,343	5,190	1,309	6,499
Ranger	1,496	34	1,530	2,711	32	2,743
New Transit Connect	1,060	-	1,060	1,747	26	1,773
	65,768	**328,892**	**394,660**	**115,462**	**297,396**	**412,858**

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

18. REVENUE AND COST OF SALES (Continued)

Summaries of cost of production as of 31 December 2018 and 2017 are as follows:

	2018	2017
Raw material cost	(25,007,429)	(17,893,433)
Production overhead costs	(1,478,408)	(1,249,605)
Amortization expenses (Note 10 & 11)	(524,019)	(436,801)
Changes in finished goods	178,679	(73,211)
Total production cost	**(26,831,177)**	**(19,653,050)**
Cost of trade goods sold	(3,002,282)	(3,051,045)
Total cost of sales	**(29,833,459)**	**(22,704,095)**

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

	2018	2017
Marketing expenses		
Advertising expenses	(113,153)	(90,695)
Warranty expenses (Note 13)	(106,426)	(188,087)
Personnel expenses	(105,385)	(83,242)
Vehicle transportation expenses	(47,590)	(59,350)
Spare parts transportation and packaging expenses	(34,020)	(25,237)
Export expenses	(20,206)	(19,333)
Dealer and service development expenses	(10,579)	(10,501)
Depreciation and amortization expenses (Note 10 & 11)	(3,681)	(3,443)
Other	(66,178)	(64,415)
	(507,218)	**(544,303)**

	2018	2017
General administrative expenses		
Personnel expenses	(123,324)	(103,730)
Grants and donations	(41,750)	(27,374)
Legal, consulting and auditing expenses	(37,315)	(34,798)
New project administrative expenses	(22,854)	(12,349)
Organization expenses	(21,995)	(14,220)
Depreciation and amortization expenses (Note 10 & 11)	(15,623)	(12,723)
Transportation and travel expenses	(6,825)	(7,011)
Repair, maintenance and energy expenses	(5,687)	(4,659)
Duties, taxes and levies	(3,601)	(4,038)
Other	(33,169)	(28,578)
	(312,143)	**(249,480)**

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

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

	2018	**2017**
Research and development expenses		
Personnel expenses	(172,800)	(153,748)
Project costs	(122,119)	(108,297)
Mechanization expenses	(40,315)	(24,378)
Depreciation and amortization expenses (Note 10 & 11)	(20,615)	(19,132)
Other	(12,719)	(11,637)
	(368,568)	**(317,192)**

20. EXPENSES BY NATURE

The classification of expenses by nature for the periods ended at 31 December 2018 and 2017 is as follows:

	2018	**2017**
Raw material cost	(25,007,429)	(17,893,433)
Cost of trade goods sold	(3,002,282)	(3,051,045)
Financial expenses	(2,501,845)	(786,231)
Personnel expenses	(1,238,444)	(1,004,888)
Other operational expenses	(746,500)	(734,956)
Other overhead costs	(641,474)	(585,438)
Other expenses from operating activities	(566,898)	(278,508)
Depreciation and amortization expenses	(563,938)	(472,099)
Expenses from investing activities	(3,855)	(3,407)
Expense from investment accounted for by equity method		(94)
Changes in inventories	178,679	(73,211)
Total expenses	**(34,094,080)**	**(24,883,216)**

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

21. OTHER OPERATING INCOME / EXPENSES

Other operating income	2018	2017
Foreign exchange gains related to trade receivables and payables	304,957	212,701
Unearned financial income	185,498	139,378
License income	18,554	15,481
Price difference and claim recovery	10,527	10,877
Rent income	8,222	5,368
Commission income	4,653	7,057
Previous period corporate tax corrections	-	3,302
Provisions no longer required	-	14,047
Other	48,718	52,251
	581,129	**460,462**

Other operating expenses	2018	2017
Unearned financial expense	(341,463)	(177,790)
Foreign exchange losses related to trade receivables and payables	(223,322)	(95,109)
Other	(2,113)	(5,609)
	(566,898)	**(278,508)**

22. FINANCIAL INCOME

	2018	2017
Foreign exchange gains	1,876,846	482,835
Interest income	104,777	74,896
Derivative financial instruments income	-	4,531
	1,981,623	**562,262**

23. FINANCIAL EXPENSES

	2018	2017
Foreign exchange losses	(2,420,188)	(722,396)
Interest expenses	(52,952)	(42,394)
Other	(28,705)	(21,441)
	(2,501,845)	**(786,231)**

24. TAX ASSETS AND LIABILITIES

Corporate Tax Law was amended by the Law No, 5520 dated June 13, 2006. Law No, 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from January 1, 2006. Accordingly, the corporate tax rate for the fiscal year 2018 is 22% (31 December 2017: 20%). Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc.) and corporate income tax deductions (e.g. research and development expenditures deduction). No further tax is payable unless the profit is distributed.

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

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

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

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

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

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

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

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

As of 31 December 2018, the Company utilised R&D incentive exemption amounting of TRY554,087 (31 December 2017: TRY518,523) in return for the legal tax.

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

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

24. TAX ASSETS AND LIABILITIES (Continued)

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

- In the Kocaeli Gölcük Plant, for the New Generation Transit expenditures, amounting to TRY1,194,398 in 2013 (with the investment expenditure of TRY1,300,573 in 2017, the document was closed in 2018),

- In Kocaeli Yeniköy Plant, for the new model Transit Courier investment, amounting to TRY697,394 in 2013 (completed with investment expenditures of TRY798,311 in 2016 and the document was closed in 2018),

- For the production of new 6 and 4-cylinder engines for use in Ford Truck and Ford Transit vehicles at the Eskişehir İnönü Plant, in 2013 amounting to TRY187,379,

- In Eskisehir Inonu Plant, for Euro 6 emission truck manufacturing expense investment amounting to TRY331,362 in 2014,

- For the renewal and factory modernization investments of Ford Transit, Ford Transit Courier and Ford Transit Custom models, which are still in production at Kocaeli Plant, in 2016 amounting to TRY849,160,

Priority Investment Incentive Certificates were received. These investments have an investment contribution rate of 40% and the investment of Kocaeli Gölcük Plant, which exceeds 1 billion TRY, benefits from the contribution rate of 10% additional investment. With the Decision of Council of Ministers dated 13.02.2017 numbered 2017/9917; 15 points have been added to the investment contribution rate for the investment expenditures to be realized between 01.01.2017 - 31.12.2017. This period has been extended until 31.12.2018 with the decision of the Council of Ministers dated 25.12.2017 numbered 2017/11175.

As of the date of the balance sheet, the investment expenditures amounting to TRY3,560,573 (31 December 2017: TRY2,814,923) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TRY137,870 (31 December 2017: TRY167,371) in the current year and this amount has been deducted from the total deferred tax asset.

The Company's net tax position as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	**31 December 2017**
Current year corporate tax expense	(16,969)	(19,511)
Prepaid tax and withholding	8,439	13,121
Current years' profit tax liability	**(8,530)**	**(6,390)**

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

24. TAX ASSETS AND LIABILITIES (Continued)

The taxation on income for the periods ended 31 December 2018 and 2017 are as follows;

	2018	2017
Current year corporate tax expense	(16,969)	(19,511)
Current year tax effect of cash flow hedge (*)	(81,861)	(41,733)
Other deferred tax	20,914	70,066
Deferred tax (expense) / income	(60,947)	28,333
Continuing operations tax (expense)/income	**(77,916)**	**8,822**

(*) The amount represents the tax effect of the reclassisfication 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 December 2018 and 2017 and current tax ratio based on income before tax is as follows:

	2018	2017
Income before tax:	1,761,112	1,481,161
Effective tax rate	%22	%20
Current year tax expense	(387,445)	(296,232)
Research and development deductions	121,899	103,705
Investment incentive exemption	193,221	192,295
Other	(5,591)	9,054
	(77,916)	**8,822**

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

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

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

24. TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 using the current enacted tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Deferred tax assets				
Investment incentive tax asset	4,190,692	4,037,011	820,314	764,963
Expense accruals and other provisions	283,018	398,708	60,838	86,416
Employee benefits provision	170,925	131,726	34,185	26,345
Warranty expense provision	194,326	231,525	41,961	50,520
Inventories	79,505	26,380	17,491	5,803
	4,918,466	**4,825,350**	**974,789**	**934,047**
Deferred tax liabilities				
Tangibles and intangibles	1,563,960	1,459,592	(312,792)	(291,918)
Income accruals and other	81,744	72,168	(17,822)	(15,686)
	1,645,704	**1,531,760**	**(330,614)**	**(307,604)**
Net deferred tax asset			**644,175**	**626,443**

The deferred tax movement table is presented below:

	1 January 2018	**Charged to Statement of profit or loss as income/(expense)**	**Charged to comprehensive income statement as income/(expense)**	**31 December 2018**
Deferred tax liabilities				
Tangible and intangible assets	(291,918)	(20,874)	-	(312,792)
Income accruals and other	(15,686)	(2,385)	249	(17,822)
Deferred tax assets				
Investment incentive tax asset	764,963	55,351	-	820,314
Expense accruals and other	86,416	(25,578)	-	60,838
Provision for employee benefits	26,345	11,271	(3,431)	34,185
Warranty expense provision	50,520	(8,559)	-	41,961
Inventories	5,803	11,688	-	17,491
Deferred tax asset, net	**626,443**	**20,914**	**(3,182)**	**644,175**

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

24. TAX ASSETS AND LIABILITIES (Continued)

	1 January 2017	Charged to Statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	31 December 2017
Deferred tax liabilities				
Tangible and intangible assets	(286,054)	(5,864)	-	(291,918)
Income accruals and other	(18,440)	2,686	68	(15,686)
Deferred tax assets				
Investment incentive tax asset	740,039	24,924	-	764,963
Expense accruals and other	61,211	25,205	-	86,416
Provision for employee benefits	22,004	4,346	(5)	26,345
Warranty expense provision	30,878	19,642	-	50,520
Inventories	6,676	(873)	-	5,803
Deferred tax asset, net	**556,314**	**70,066**	**63**	**626,443**

25. EARNINGS PER SHARE

	2018	2017
Net profit for the year	1,683,196	1,489,983
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	**4.80 Kr**	**4.25 Kr**

26. RELATED PARTY DISCLOSURES

Related party can be defined according to whether one of the companies has control over the others or has significant effect on its financial and administrative decisions. The Company, is controlled by Koç Holding A.Ş. and Ford 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 December 2018 and 31 December 2017 and the transactions with related parties during the year are as follows:

a) Receivables from related parties

i) Trade receivable from related parties

	31 December 2018	31 December 2017
Due from shareholders		
Ford Motor Company and its subsidiaries	1,580,589	1,444,291
	1,580,589	**1,444,291**

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

26. RELATED PARTY DISCLOSURES (Continued)

Due from group companies (*)

Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	513,489	619,403
Other	1,166	1,736
	514,655	**621,139**
Less: Unearned credit finance income	(12,981)	(8,163)
	2,082,263	**2,057,267**

(*) 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.

b) Payables to related parties

i) Trade payables to related parties

	31 December 2018	31 December 2017
Due to shareholders		
Ford Motor Company and its subsidiaries	513,781	760,742
	513,781	**760,742**
Trade payables due to related parties (*)		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	72,532	56,218
Ram Dış Ticaret A.Ş.	47,228	45,224
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	24,669	14,058
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	19,261	3,029
Setur Servis Turistik A.Ş.	14,714	4,464
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3,873	3,403
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	2,763	3,193
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,507	1,960
Ram Sigorta Aracılık Hizmetleri A.Ş.	93	97
Other	5,907	4,196
	192,547	**135,842**
Less: Unearned credit finance expense	(2,761)	(1,025)
	703,567	**895,559**

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

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

26. RELATED PARTY DISCLOSURES (Continued)

ii) Other payables to related parties

	31 December 2018	31 December 2017
Koç Holding A.Ş.	13,220	10,458
Koç Finansman A.Ş.	9,676	13,277
Yapı ve Kredi Bankası A.Ş.	8,425	7,703
	31,321	**31,438**

c) Sales to related parties

	2018	2017
Ford Motor Company (*)	26,673,909	17,461,276
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	1,618,047	2,098,534
Other	603	172
	28,292,559	**19,559,982**
Less: Financial income from credit sales	(51,681)	(39,602)
	28,240,878	**19,520,380**

(*) 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

	2018			
	Material	**Service**	**Fixed assets**	**Total**
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	28,140	308,865	789	337,794
Ram Dış Ticaret A.Ş.	171,415	-	-	171,415
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	32,809	21,470	54,279
Setur Servis Turistik A.Ş.	-	50,988	-	50,988
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	811	33,108	33,919
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	24,495	-	-	24,495
Koç Holding A.Ş. (*)	-	24,100	-	24,100
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	16,695	-	-	16,695
Koçtaş Yapı Marketleri Ticaret A.Ş.	13,245	-	55	13,300
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	12,722	-	12,722
Opet Petrolcülük A.Ş.	6,148	-	-	6,148
Tanı Pazarlama İlet. Hiz. A.Ş.	-	2,166	-	2,166
Other	2,259	20,694	11,706	34,659
	262,397	**453,155**	**67,128**	**782,680**
Less: Financial expense from credit purchases	(7,392)	-	-	(7,392)
	255,005	**453,155**	**67,128**	**775,288**

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

26. RELATED PARTY DISCLOSURES (Continued)

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

(**) Contains paid and accrued premium amounts for the period ended 31 December 2018 and period ended 2017 within the context of insurance policies signed with insurance companies through the agency of Ram Sigorta Aracılık Hizmetleri A.Ş.

	2017			
	Material	**Service**	**Fixed assets**	**Total**
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	21,117	273,877	205	295,199
Ram Dış Ticaret A.Ş.	136,008	-	-	136,008
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	19,250	13,272	32,522
Setur Servis Turistik A.Ş.	-	30,250	-	30,250
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	17,485	9,915	27,400
Koç Holding A.Ş. (*)	-	20,510	-	20,510
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	19,951	-	-	19,951
Koçtaş Yapı Marketleri Ticaret A.Ş.	11,903	-	31	11,934
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	11,532	-	-	11,532
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	9,620	-	9,620
Opet Petrolcülük A.Ş.	5,215	-	-	5,215
Tanı Pazarlama İlet. Hiz. A.Ş.	-	2,270	-	2,270
Other	312	6,416	223	6,951
	206,038	**379,678**	**23,646**	**609,362**
Less: Financial expense from credit purchases	(4,072)	-	-	(4,072)
	201,966	**379,678**	**23,646**	**605,290**

Material, vehicle and service purchases from abroad

	2018	**2017**
Ford Motor Company and subsidiaries	13,929,034	11,019,457

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

	2018	**2017**
	110,504	148,358

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

	2018	**2017**
	18,554	15,481

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

26. RELATED PARTY DISCLOSURES (Continued)

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

	2018	2017
	40,223	26,369

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

Deposits in related banks	31 December 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş.		
- TRY time deposits	401,422	105,630
- Foreign currency time deposits	14,468	-
- TRY demand deposits	10,713	8,005
- Foreign currency demand deposits	992	2,561
	427,595	**116,196**

i) Loans from related banks

	31 December 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş.	10,331	-
	10,331	**-**

j) Commission income

	2018	2017
Koç Finansman A.Ş.	2,822	4,272
Yapı ve Kredi Bankası A.Ş.	1,831	2,785
	4,653	**7,057**

k) Commission expense

	2018	2017
Koç Finansman A.Ş.	75,577	113,572
Yapı ve Kredi Bankası A.Ş.	46,018	57,716
	121,595	**171,288**

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

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

26. RELATED PARTY DISCLOSURES (Continued)

l) Interest income

	2018	2017
Yapı ve Kredi Bankası A.Ş.	15,706	10,484

m) Dividend income

	2018	2017
Otokar Otomotiv ve Savunma Sanayi A.Ş.	410	351

n) Compensation of key management personnel

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

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

The total amount of compensation given to key management personnel of the Company as of 31 December 2018 is TRY35,263 (31 December 2017: TRY33,611).

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below summarizes the Company's exposure to foreign currency exchange rate risk at 31 December 2018 and 31 December 2017. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

31 December 2018

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

(*) The Company's net foreign exchange position is mainly due to long - term Euro denominated loans obtained to fund its investments. The Company is hedging for the foreign currency exchange risk arising from its Euro denominated long-term loans with export agreements signed with Ford Motor Company. The TRY equivalent of such loans amount to TRY2,632,800 as of 31 December 2018 (31 December 2017: TRY1,862,921). As of 31 December 2018, the Company has a total of TRY84,935 (31 December 2017: TRY69,802) of the product to be issued.

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2017

	TRY (Functional currency)	USD	EUR	Other
1. Trade receivables	1,667,304	32,001	342,509	-
2. Monetary financials assets (including cash and cash equivalents)	1,043,634	40,104	197,508	102
3. Other	215,695	7,702	41,334	-
4. Current assets (1 + 2 + 3)	**2,926,633**	**79,807**	**581,351**	**102**
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	**-**	**-**	**-**	**-**
7. Total assets (4+6)	**2,926,633**	**79,807**	**581,351**	**102**
8. Trade payables	964,733	25,331	190,882	1,429
9. Financial liabilities (*)	1,783,879	40,000	361,644	-
10. Other monetary liabilities	5,256	-	651	456
11. Short term liabilities (8 + 9 + 10)	**2,753,868**	**65,331**	**553,177**	**1,885**
12. Financial liabilities (*)	1,820,166	-	403,093	-
13. Other	102,204	-	22,634	-
14. Long term liabilities (12+13)	**1,922,370**	**-**	**425,727**	**-**
15. Total liabilities (11 + 14)	**4,676,238**	**65,331**	**978,904**	**1,885**
16. Net foreign currency (liabilities)/assets position (7 - 15)	**(1,749,605)**	**14,476**	**(397,553)**	**(1,783)**
17. Net monetary foreign currency (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	**(1,863,096)**	**6,774**	**(416,253)**	**(1,783)**

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk

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

31 December 2018

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

31 December 2017

	Profit/(loss) before taxation	
Appreciation/depreciation in foreign currency	**Increase by 10%**	**Decrease by 10%**
Change in USD against TRY		
USD net assets/(liabilities)	5,460	(5,460)
USD net hedged amount	-	-
USD net- gain/(loss)	**5,460**	**(5,460)**
Change in EUR against TRY		
EUR net (liabilities)/assets	(179,515)	179,515
EUR net hedged amount	186,292	(186,292)
EUR net- gain/(loss)	**6,777**	**(6,777)**
Change in other foreign currency against TRY		
Other foreign currency denominated net (liabilities)/assets	(906)	906
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	**(906)**	**906**

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The comparative amounts for total export and import amounts for the year ended 31 December 2018 and 2017 are as follows:

	2018	2017
Total export amount	27,303,441	17,830,091
Total import amount	15,236,754	11,791,955

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

Interest rate risk

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

	31 December 2018	31 December 2017
Fixed interest rate financial instruments		
Financial assets	1,361,594	1,764,533
Financial liabilities	2,967,869	1,885,646
Floating interest rate financial instruments		
Financial liabilities	1,514,948	1,718,401

If the interest rates of floating interest-bearing Euro denominated borrowings were 100 basis points higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TRY2,016 at 31 December 2018 (31 December 2017: TRY2,495) due to higher/lower interest expense.

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

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

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

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2017	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	3,604,047	3,702,568	485,287	1,310,866	1,830,415	76,000
Trade payables						
- Related party	895,559	896,585	896,585	-	-	-
- Other	2,921,390	2,941,886	2,941,886	-	-	-
Other liabilities						
- Related party	31,438	31,438	31,438	-	-	-
- Other	56,385	56,385	56,385	-	-	-
Derivative financial liabilities						
Derivative financial instruments	187	187	-	-	187	-

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy table

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

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

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

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

As of 31 December 2018 and 31 December 2017, the Company's hierarchy table for its assets and liabilities recorded at fair value are as follows:

31 December 2018

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

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

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2017

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	4,531	-
Financial asset available-for-sale - Otokar	17,406	-	-
Total assets	**17,406**	**4,531**	**-**
Liabilities at fair value			
Derivative financial liabilities	-	187	-
Total liabilities	**-**	**187**	**-**

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company hedged the interest rate risk arising from cash flows related to the borrowing used as of 31 December 2018 with the maturity of 3 November 2019 amounting to Euro 25,714,286 with interest rate swapping. The critical conditions of the settlement contract such as maturity, payment, interest rate change dates are in line with the critical conditions of the foreign currency borrowing, which is the subject of financial hedge as of 31 December 2018. The fair value of the interest rate swap transaction calculated as of 31 December 2018 is TRY93 and it is classified as long - term liabilities.

Derivative financial instruments

	31 December 2018	31 December 2017
Derivative financial liabilities	93	187
	93	**187**

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

28. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

In July 2018, the Company applied foreign currency forward as part of the loan balances in order to hedge exchange rate risk on the repayment of some of the loans denominated in Euro, which will be floated in July 2018. This currency forward transaction was realized in July 2018.

	31 December 2018	**31 December 2017**
Derivative financial assets	-	4,531
	-	**4,531**

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

Cash flow hedge reserve	**31 December 2018**	**31 December 2017**
Amount recognized in other comprehensive income	788,991	392,450
Amount recycled from other comprehensive income to statement of profit or loss	(415,963)	(183,786)
	373,028	**208,664**

29. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	2018	**2017**
Income from investing activities		
Dividend income	410	351
Gain on sale of property, plant and equipment	-	12
	410	**363**

	2018	**2017**
Expense from investing activities		
Loss on sale of property, plant and equipment	(3,855)	(3,407)
	(3,855)	**(3,407)**

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

30. DEFERRED REVENUE

	31 December 2018	31 December 2017
Short-term deferred revenue	6,704	2,932
Advances received	6,515	7,997
	13,219	**10,929**

	31 December 2018	31 December 2017
Long-term deferred revenue	7,479	7,450
	7,479	**7,450**

31. OTHER NON CURRENT LIABILITIES

	31 December 2018	31 December 2017
Other non-current liabilities (*)	52,508	115,631
	52,508	**115,631**

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

32. INVESTMENTS VALUED BY EQUITY METHOD

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

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

	31 December 2018		31 December 2017	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Rezervis Mobil Teknoloji A.Ş.	25	933	-	-
		933		**-**

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

	2018	2017
1 January	**1,027**	**-**
Profit/(losses) share	(94)	-
31 December	**933**	**-**

33. GOVERNMENT INCENTIVES AND GRANTS

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

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

- In the Kocaeli Gölcük Plant, for the New Generation Transit expenditures, amounting to TRY1,194,398 in 2013 (completed with investment expenditures of TRY1,300,573 in 2017, the document was closed in 2018),

- In Kocaeli Yeniköy Plant, for the new model Transit Courier investment, amounting to TRY697,394 in 2013 (completed with investment expenditures of TRY798,311 in 2016 and the document was closed in 2018),

- For the production of new 6 and 4-cylinder engines for use in Ford Truck and Ford Transit vehicles at the Eskişehir İnönü Plant, in 2013 amounting to TRY187,379,

- In Eskisehir Inonu Plant, for Euro 6 emission truck manufacturing expense investment amounting to TRY331,362 in 2014,

- For the renewal and factory modernization investments of Ford Transit, Ford Transit Courier and Ford Transit Custom models, which are still in production at Kocaeli Plant, in 2016 amounting to TRY849,160, Priority Investment Incentive Certificates. These investments have an investment contribution rate of 40% and the investment of Kocaeli Gölcük Plant, which exceeds 1 billion TRY, benefits from the contribution rate of 10% additional investment. With the Decision of Council of Ministers dated 13.02.2017 numbered 2017/9917; 15 points have been added to the investment contribution rate for the investment expenditures to be realized between 01.01.2017 - 31.12.2017. This period has been extended until 31.12.2018 with the decision of the Council of Ministers dated 25.12.2017 numbered 2017/11175.

34. SUBSEQUENT EVENTS

None.

35. DISCLOSURE OF OTHER MATTERS

None.

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