

FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

FINANCIAL STATEMENTS FOR THE PERIOD

JANUARY 1 - MARCH 31, 2017

(ORIGINALLY ISSUED IN TURKISH)

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FORD OTOMOTİV SANAYİ A.Ş.

BALANCE SHEET AS AT MARCH 31, 2017

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

	Notes	Current period Unaudited 31 March 2017	Previous period Audited 31 December 2016
ASSETS			
Current assets		5,285,376,447	4,675,977,017
Cash and cash equivalents	4	1,363,696,066	1,189,032,567
Trade receivables			
- Due from related parties	26	1,610,608,063	1,362,948,717
- Due from third parties	7	657,103,957	794,771,069
Other receivables			
- Due from third parties	8	945,848	503,875
Inventories	9	1,199,758,729	1,054,426,362
Prepaid expenses	12	135,996,757	59,011,310
Other current assets	16	317,267,027	215,283,117
Non-current assets		4,661,246,067	4,610,175,096
Financial investments	5	16,675,062	18,755,930
Trade receivables			
- Due from third parties	7	1,600,612	1,464,369
Property, plant and equipment	10	3,261,620,339	3,302,744,781
Intangible assets and goodwill	11	574,748,133	552,563,438
Prepaid expenses	12	238,770,314	178,332,944
Deferred tax assets	24	567,831,607	556,313,634
Total assets		9,946,622,514	9,286,152,113

These financial statements were approved for issue by the Board of Directors on April 26, 2017.

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

FORD OTOMOTİV SANAYİ A.Ş.

BALANCE SHEET AS AT MARCH 31, 2017

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

	Notes	Current period Unaudited 31 March 2017	Previous period Audited 31 December 2016
Liabilities			
Current liabilities		5,196,032,315	4,307,860,431
Short-term borrowings	6	1,017,224,668	771,571,881
Short-term portion of long-term borrowings	6	606,130,157	576,702,976
Trade payables			
- Due to related parties	26	876,106,851	794,183,111
- Due to third parties	7	1,947,246,536	1,823,159,788
Other payables			
- Due to related parties	26	403,412,200	18,763,171
- Due to third parties	8	119,841,123	76,128,915
Deferred revenue	30	12,321,879	8,811,150
Provisions			
- Other provisions	13	126,924,858	136,240,620
- Employee benefit obligations	15	86,824,043	102,298,819
Non-current liabilities		1,777,064,680	1,814,672,371
Long-term borrowings	6	1,446,784,689	1,503,854,666
Long-term provisions			
- Employee benefits obligations	15	141,294,664	130,325,566
- Other provisions	13	106,049,940	100,115,386
Deferred revenue	30	3,407,631	4,757,073
Other non-current liabilities	31	79,527,756	75,619,680
Equity	17	2,973,525,519	3,163,619,311
Paid-in capital		350,910,000	350,910,000
Inflation adjustments on capital		27,920,283	27,920,283
Share premium		8,252	8,252
Other accumulated comprehensive income/(loss)			
that will not be reclassified in profit or loss			
- Losses on remeasurements of defined benefit plans		(15,669,389)	(14,018,852)
Other accumulated comprehensive income/(loss)			
that will be reclassified in profit or loss			
- Gains on remeasurements and/or reclassification of available-for-sale financial assets		14,913,093	16,889,917
- Losses on cash flow hedges		(394,886,026)	(336,188,927)
Restricted reserves		322,456,054	284,206,864
Retained earnings		2,395,605,184	1,878,584,115
Profit for the period		272,268,068	955,307,659
Total equity and liabilities		9,946,622,514	9,286,152,113

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

FORD OTOMOTIV SANAYI A.Ş.

STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Current period Unaudited 31 March 2017	Previous period Unaudited 31 March 2016
Continuing operations			
Revenue	18	5,394,877,319	4,185,415,884
Cost of sales (-)	18	(4,842,567,423)	(3,720,159,432)
Gross profit		552,309,896	465,256,452
Marketing expenses	19	(105,583,268)	(90,808,215)
General administrative expenses	19	(52,554,174)	(43,594,371)
Research and development expenses	19	(75,082,614)	(78,888,363)
Other income from operating activities	21	91,545,727	38,939,004
Other expenses from operating activities	21	(80,402,164)	(53,867,887)
Profit from operating activities		330,233,403	237,036,620
Investment activity income	29	363,677	-
Investment activity expenses	29	-	(1,156,558)
Profit before financing income		330,597,080	235,880,062
Financial income	22	82,395,963	38,481,296
Finance costs	23	(132,906,938)	(64,374,614)
Profit from continuing operations, before tax		280,086,105	209,986,744
Tax (expense)/income from continuing operations			
- Current tax expense	24	(7,818,037)	(6,936,247)
- Deferred tax income/(expense)	24	(18,819,333)	(5,882,074)
11,001,296			(1,054,173)
Profit from continuing operations		272,268,068	203,050,497
Earnings per share with a nominal value Kr 1	25	0.78 Kr	0.58 Kr

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

FORD OTOMOTIV SANAYI A.Ş.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017**
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period Unaudited 31 March 2017	Previous period Unaudited 31 March 2016
Profit		272,268,068	203,050,497
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Losses on remeasurements of defined benefit plans	17	(2,063,171)	(3,878,816)
Taxes relating to remeasurements of defined benefit plans	17	412,634	775,763
<i>Items that may be reclassified to profit or loss</i>			
Gains/(losses) on remeasurements or reclassification adjustments on available-for-sale financial assets	17	(2,080,867)	2,558,904
Gains/(losses) on cash flow hedges	17	(73,371,374)	1,623,080
Taxes relating to gains/(losses) on remeasurements or reclassification adjustments on available-for-sale financial assets	17	104,043	(127,945)
Taxes relating to cash flow hedges	17	14,674,275	(324,616)
Other comprehensive income/(loss)		(62,324,460)	626,370
Total comprehensive income		209,943,608	203,676,867

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

FORD OTOMOTIV SANAYI A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

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

			Other accumulated comprehensive income that will be reclassified in profit or loss		Other accumulated comprehensive income that will not be reclassified in profit or loss				Retained earnings			
	Paid-in capital	Inflation adjustments on capital	Share premium	Gains/(losses) on remeasurements and/or reclassification of available-for-sale financial assets	Cash flow hedge reserve	Gains/(losses) on remeasurements of defined benefit plans	Restricted reserves	Retained earnings	Net profit	Equity		
Balances at January 1, 2016	350,910,000	27,920,283	8,252	11,066,300	(154,407,851)	(1,652,515)	438,410,802	1,545,689,403	841,910,674	3,059,855,348		
Profit/(loss) for the period	-	-	-					-	-	203,050,497	203,050,497	
Other comprehensive income/(loss)	-	-	-	2,430,959	1,298,464	(3,103,053)	-	-	-	-	626,370	
Total comprehensive income	-	-	-	2,430,959	1,298,464	(3,103,053)	-	-	203,050,497	203,676,867		
Transfers	-	-	-	-	-	-	33,336,450	808,574,224	(841,910,674)	-		
Dividends paid (Note 17)	-	-	-	-	-	-	-	(350,910,000)	-	(350,910,000)		
Balances at March 31, 2016	350,910,000	27,920,283	8,252	13,497,259	(153,109,387)	(4,755,568)	471,747,252	2,003,353,627	203,050,497	2,912,622,215		
Balances at January 1, 2017	350,910,000	27,920,283	8,252	16,889,917	(336,188,927)	(14,018,852)	284,206,864	1,878,584,115	955,307,659	3,163,619,311		
Profit/(loss) for the period	-	-	-					-	-	272,268,068	272,268,068	
Other comprehensive income/(loss)	-	-	-	(1,976,824)	(58,697,099)	(1,650,537)	-	-	-	-	(62,324,460)	
Total comprehensive income	-	-	-	(1,976,824)	(58,697,099)	(1,650,537)	-	-	272,268,068	272,268,068		
Transfers	-	-	-	-	-	-	38,249,190	917,058,469	(955,307,659)	-		
Dividends paid (Note 17)	-	-	-	-	-	-	-	(400,037,400)	-	(400,037,400)		
Balances at March 31, 2017	350,910,000	27,920,283	8,252	14,913,093	(394,886,026)	(15,669,389)	322,456,054	2,395,605,184	272,268,068	2,973,525,519		

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

FORD OTOMOTIV SANAYI A.Ş.

STATEMENT OF CASH FLOW FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

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

	Notes	Current period Unaudited 31 March 2017	Previous period Unaudited 31 March 2016
Cash flows generated from/(used in) operating activities:		256,671,583	(140,452,534)
Net profit for the period		272,268,068	203,050,497
Adjustments to reconcile profit or loss:		219,748,230	195,813,007
Adjustments for depreciation and amortisation expense	10.11	117,974,979	110,412,398
Adjustments for impairment loss of inventories	9	250,362	2,342,867
Adjustments for provisions related with employee benefits		12,399,460	9,434,211
Adjustments for lawsuit and/or penalty provisions	13	1,567,236	1,494,772
Adjustments for warranty provisions	13	22,670,645	21,698,790
Adjustments for other provisions		(8,019,152)	14,541,275
Adjustments for dividend income	29	(351,498)	-
Adjustments for interest income	22	(12,692,364)	(5,520,875)
Adjustments for interest expense	23	10,967,126	10,858,384
Adjustments for tax expenses	24	7,818,037	6,936,247
Adjustments for gain/(loss) on sales of property, plant and equipment	29	(12,179)	1,156,558
Other adjustments for which cash effects are investing or financing cash flow		67,175,578	22,458,380
Changes in working capital		(209,643,143)	(512,676,356)
Adjustments for decrease/(increase) in trade accounts receivable		(110,570,451)	(24,173,516)
Adjustments for decrease/(increase) in inventories		(145,582,729)	(205,206,971)
Decrease/(increase) in prepaid expenses		(76,985,447)	(41,630,404)
Adjustments for increase/(decrease) in trade accounts payable		206,010,486	(144,677,531)
Decrease/(increase) in other assets related with operations		(101,983,908)	(68,801,196)
Increase/(decrease) in other payables related with operations		19,468,906	(28,186,738)
Cash flows generated from/(used in) operations		282,373,155	(113,812,852)
Payments related with provisions for employee benefits	15	(3,493,533)	(3,934,754)
Payments related with other provisions		(22,208,039)	(22,704,928)
Cash flows used in investing activities		(148,503,996)	(95,001,166)
Proceeds from sales of property, plant and equipment		397,564	2,291,506
Purchase of property, plant and equipment	10	(57,974,697)	(75,336,852)
Purchase of intangible assets	11	(41,445,920)	(24,336,967)
Cash advances and loans made to other parties		(60,437,370)	(2,329,069)
Dividends received		351,498	-
Interest received		10,604,929	4,710,216
Cash flows provided by financing activities		66,495,912	292,772,213
Proceeds from borrowings		504,859,059	579,700,165
Repayment of borrowings		(429,589,579)	(278,251,579)
Interest paid		(8,773,568)	(8,676,373)
Net increase/(decrease) in cash and cash equivalents		174,663,499	57,318,513
Cash and cash equivalents at the beginning of the period		1,189,032,567	980,361,277
Cash and cash equivalents at the end of the period	4	1,363,696,066	1,037,679,790

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 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 Akpinar Mahallesi, Hasan Basri Cad. No: 2 Sancaktepe, İstanbul.

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

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

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

Year	Average		Year End	
	2017	2016	2017	2016
Blue Collar	7,581	7,844	7,656	7,561
White Collar	2,687	2,749	2,676	2,700
Total	10,268	10,593	10,332	10,261

Research and development operations which are also subject to service export is conducted with 1,213 employees in Sancaktepe branch, conducted with 253 employees in R&D centre in Kocaeli plant, and conducted with 85 employees in R&D centre in Eskişehir İnönü plant, totally 1,551 employees as of March 31, 2017 (December 31, 2016: 1,585)

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

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

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

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Going concern

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

Comparatives of prior periods' financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company at March 31, 2017 has been provided with the comparative financial information of December 31, 2016 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 period between January 1, and March, 31, 2017 have been provided with the comparative financial information, for the period between January 1, 2016 and December 31, 2016.

2.2 Amendments and interpretations in the standards

The new standards, amendments and interpretations

i) The new standards, amendments and interpretations which are effective as at 31 March 2017 are as follows:

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

- TFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- TFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to TFRS 1) regarding servicing contracts.
- TAS 19, 'Employee benefits' regarding discount rates.
- TAS 34, 'Interim financial reporting' regarding disclosure of information.

Amendment to TFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

Amendments to TAS 16 'Property, plant and equipment', and TAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41.

Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

Amendment to TAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (continued)

Amendments to TAS 7 ‘Statement of cash flows’ on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments TAS 12 ‘Income Taxes’, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarify certain other aspects of accounting for deferred tax assets.

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.

ii. Standards, amendments and interpretations effective after 1 April 2017

TFRS 15 ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. TFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

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.

TFRS 16 ‘Leases’, effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a far-reaching 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.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (continued)

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.
- TFRS 12,’ Disclosure of interests in other entities’ regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

IFRIC 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.

2.3 Summary of significant accounting policies

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

Cash and cash equivalents

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

Trade receivables and allowance for trade receivables

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

Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for receivables, debtors, other than the key accounts and related parties, are assessed with their prior year performances, their credit risk in the current market, 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.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (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 years
Buildings	14.5 - 36 years
Machinery and equipment	5-25 years
Moulds and models	Project lifetime
Furniture and fixtures	4 - 14.5 years
Motor vehicles	9-15 years

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

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (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 2.3 Research and development expenses (Note 11).

The estimated useful lifetimes of such assets are as follows:

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

Impairment of long-lived assets

All assets are reviewed for impairment losses including property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s net selling price and value in use. Impairment losses are recognized in the statement of profit or loss.

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

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

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

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

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

Share premium

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Share capital and dividends

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

Taxes on income

Taxes include current period income taxes and deferred taxes.

Current period income tax

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

Deferred tax

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

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

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

Current and deferred tax

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

Revenue recognition

Goods & services sales

Revenue comprises the invoiced value for the sale of goods and services. 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.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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 revenue through allocating the difference between the price paid by the customers and their buyback price to leasing period. (Note 30).

For export sales significant risk and rewards are transferred to the buyer on FAS, “Final Assignment to Ship” terms. For export sales significant risk and rewards are transferred to the buyer on FAS, “Final Assignment to Ship” terms.

Net sales represent the invoiced value of goods shipped less sales returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on an accrual basis (Note 18.21).

Dividend and interest income

Dividend income from the stock investments are recorded when the stockholders become entitled to receive a dividend.

Interest income is realized on a time period basis and the accrued income is determined by taking into account the valid interest rate and the interest rate that is to be effective until its maturity date.

Foreign currency transactions and balances

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the Central Bank of Turkey (“TCB”) exchange rates prevailing at the statement of the financial position dates. Foreign currency exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized 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:

	TL/ USD	TL/Euro	TL/GBP
31 March 2017	3,6386	3,9083	4,5169
31 December 2016	3,5192	3,7099	4,3189
31 March 2016	2,8334	3,2081	4,0766

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.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

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

Price risk

The Company is exposed to equity securities price risk because of investments classified on the statement of financial position as available-for-sale. The Company limits the available-for-sale financial assets in order to manage the price risk arising from investments in equity securities.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The risk of funding current and future debt requirements is managed by having an adequate number of quality loan providers constantly available. The Company management keeps cash, credit commitment and factoring capacity to maintain 21 days cash outflows to manage the liquidity risk. The Company maintains a credit commitment amounting to Euro 80 million and factoring agreement amounting to Euro 125 million in case a requirement for use arises.

Interest rate risk

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

Funding risk

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

Foreign exchange risk

The Company is exposed to foreign exchange risk through the impact of rate changes on the translation of foreign currency assets and liabilities into local currency. This risk is monitored by 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).

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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.

	31 March 2017	31 December 2016
Net financial debt	1,706,443,448	1,663,096,956
Tangible equity	2,398,777,386	2,611,055,873
Net financial debt/tangible equity ratio	0.71	0.64

Fair value of financial instruments

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

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

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

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

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

Financial assets

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.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Financial liabilities

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

Cash flow hedge accounting

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

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as “hedging reserves”. Where the forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the income statement in the period in which the hedged firm commitment or forecasted transaction affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

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

Borrowings and borrowing costs

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

Provision for employee benefits

a) Defined benefit plan:

Provision for employee benefits represent the present value of the estimated total reserve of the future probable obligation of the Company arising from the retirement of the employees or reasons except for resignation and 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.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

b) Defined contribution plan:

The Company has to compensate the Social Security Contribution of the employees. As long as this is compensated, there is no any other obligation for the Company. Social Security Contributions are classified as personnel expenses as of the accrual date (Note 15).

c) Other employee benefits

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

Provisions

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

Provisions for sales premium

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

Warranty expenses provision

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

Research and development expenses

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

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

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Leasing – the Company as the lessee

Operating leases

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

Leasing – the Company as lessor

Operational Leasing

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

Related parties

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

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

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

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Earnings per share

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

Reporting of cash flows

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

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

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

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

Contingent assets and liabilities

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

Subsequent events

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

Offsetting

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

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.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 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

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 March 31, 2017 and December 31, 2016 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 2.3 (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 March 31, 2017 and December 31, 2016, there is no impairment determined related to development costs in progress (Note 11).

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 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.

NOTE 4 - CASH AND CASH EQUIVALENTS

The maturity period of time deposits is up to three months and there is no blockage/restriction on cash and cash equivalents. The weighted average interest rate for Euro denominated time deposits is 2.20% (December 31, 2016 - 1.77%) and the weighted average interest rate for the TL time deposits is 12.99%, (December 31, 2016 - 10.94%).

	31 March 2017	31 December 2016
Banks - foreign currency time deposits	423,839,461	751,600,036
Banks - TL time deposits	923,562,602	405,969,357
Banks - TL demand deposits	15,309,916	30,805,170
Banks - foreign currency demand deposits	984,087	658,004
	1,363,696,066	1,189,032,567

NOTE 5 - FINANCIAL ASSETS

Available-for-sale financial assets:	31 March 2017		31 December 2016	
	Ownership rate (%)	Amount (TL)	Ownership rate (%)	Amount (TL)
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0.59	16,675,062	0.59	18,755,930
		16,675,062		18,755,930

(*) The Company's shareholding in Otokar was stated at market value at March 31, 2017 and December 31, 2016 which is assumed to approximate its fair value.

NOTE 6 - FINANCIAL LIABILITIES

Short-term borrowings:

	Effective interest rate (%)	31 March 2017	31 December 2016	
	TL Amount	Effective interest rate (%)	TL Amount	
- Euro	0.74	860,451,654	0.92	630,803,881
- USD	1.96	145,544,000	1.96	140,768,000
- TL	-	11,229,014	-	-
		1,017,224,668		771,571,881

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

Short-term portion of long-term borrowings:

		31 March 2017		31 December 2016
	Effective interest rate (%)	TL amount	Effective interest rate (%)	TL amount
- Euro	1.80	606,130,157	1.50	576,702,976
		606,130,157		576,702,976
Total short-term borrowings		1,623,354,825		1,348,274,857

Long-term borrowings:

		31 March 2017		31 December 2016
		TL		TL
- Euro	1.56	1,446,784,689	1.57	1,503,854,666
		1,446,784,689		1,503,854,666

The payment schedules of long-term bank borrowings as of March 31, 2017 and December 31, 2016 are as follows:

Payment period	31 March 2017	31 December 2016
	TL equivalent	TL equivalent
2018	468,492,412	578,549,923
2019	470,391,672	444,440,751
2020	290,199,308	274,403,368
2021	186,356,214	176,769,323
2022	31,345,083	29,691,301
	1,446,784,689	1,503,854,666

The letters of bank guarantee given to financial institutions in connection with borrowings amount to TL 1,046,858,116 (December 31, 2016 - TL 1,188,529,373) (Note 13).

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

	31 March 2017	31 December 2016
Short term trade receivables:		
Trade receivables	663,160,258	802,670,373
Doubtful receivables	4,533,456	4,533,456
Less: Unearned credit finance income	(6,056,301)	(7,899,304)
	661,637,413	799,304,525
Less: Provision for doubtful receivables	(4,533,456)	(4,533,456)
	657,103,957	794,771,069

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days. (December 31, 2016: 25 days), domestic sales of spare parts turnover is 70 days (December 31, 2016: 70 days) and discounted by 1.11% monthly effective interest rate (December 31, 2016: 0.96%).

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

	31 March 2017	31 December 2016
Long term trade receivables:		
Deposits and guarantees given	1,600,612	1,464,369
	1,600,612	1,464,369
 31 March 2017 31 December 2016		
Trade payables:		
Trade payables	1,959,671,629	1,832,581,984
Less: Unearned credit finance expense	(12,425,093)	(9,422,196)
	1,947,246,536	1,823,159,788

The average turnover of trade payables is 60 days (December 31, 2016: 60 days) and discounted by 1.11% monthly effective interest rate. (December 31, 2016: 0.96%).

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

The maximum exposure of the Company to credit risk as of March 31, 2017 and December 31, 2016 is as follows:

31 March 2017	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	1,610,608,063	657,103,957	-	945,848	1,363,696,066
- The maximum of credit risk covered by guarantees	160,000,000	656,418,639	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	1,546,381,221	654,914,137	-	945,848	1,363,696,066
The carrying amount of financial assets whose terms have been renegotiated otherwise classified as overdue or impaired	-	-	-	-	-
Net book value of financial assets that are overdue but not impaired	64,226,842	2,189,820	-	-	-
- Amount of risk covered by guarantees	-	1,504,502	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533,456	-	-	-
- Provision for impairment (-)	-	(4,533,456)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2016	Trade receivables		Other receivables		
	Related party	Other	Related party	Other	Deposits in bank
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	1,362,948,717	794,771,069	-	503,875	1,189,032,567
- The maximum of credit risk covered by guarantees	160,000,000	729,656,675	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	1,340,960,409	791,095,435	-	503,875	1,189,032,567
The carrying amount of financial assets whose terms have been renegotiated otherwise classified as overdue or impaired	-	-	-	-	-
Net book value of financial assets that are overdue but not impaired	21,988,308	3,675,634	-	-	-
- Amount of risk covered by guarantees	-	852,822	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533,456	-	-	-
- Provision for impairment (-)	-	(4,533,456)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

Trade receivables		
31 March 2017	Related party	Other
1-30 days overdue	52,206,205	1,784,069
1-3 months overdue	7,828,361	285,892
3-12 months overdue	3,474,944	119,859
1-5 years overdue	717,332	-
	64,226,842	2,189,820
Risk covered by guarantees	-	1,504,502

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

Trade receivables		
31 December 2016	Related party	Other
1-30 days overdue	10,169,239	3,456,437
1-3 months overdue	7,756,507	48,836
3-12 months overdue	1,900,675	170,361
1-5 years overdue	2,161,887	-
	21,988,308	3,675,634
Risk covered by guarantees	-	852,822

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

	31 March 2017	31 December 2016
Other receivables:		
Other miscellaneous receivables	945,848	503,875
	945,848	503,875
31 March 2017 31 December 2016		
Other payables:		
Taxes and funds payable	61,651,198	43,608,973
Other rent accruals	19,450,819	17,465,069
Marketing and other expense accruals	17,825,795	-
Sales premium accruals	8,161,779	8,712,260
Donations and grants payable	4,892,539	-
Other	7,858,993	6,342,613
	119,841,123	76,128,915

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 9 - INVENTORIES

	31 March 2017	31 December 2016
Raw materials	316,451,665	304,205,557
Finished goods	348,033,314	289,056,322
Goods in transit	197,435,141	200,054,591
Vehicle spare parts	146,522,548	127,888,336
Import vehicles	150,815,985	89,740,363
Spare parts	23,388,791	19,626,376
Other	22,593,601	29,086,771
	1,205,241,045	1,059,658,316
Less: Provision for impairment of finished goods and vehicle spare parts	(5,482,316)	(5,231,954)
	1,199,758,729	1,054,426,362

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:

	2017	2016
At January 1	5,231,954	4,329,423
Change within the period	250,362	2,342,867
At March 31	5,482,316	6,672,290

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery & equipment	Models & moulds	Fixtures & furniture	Vehicles (*)	Construction in progress	Total
December 31, 2016									
Cost	12,269,499	155,316,725	938,595,369	2,406,474,804	2,097,200,834	382,723,111	91,149,704	93,680,179	6,177,410,225
Accumulated depreciation	-	(71,312,358)	(370,830,967)	(1,145,067,464)	(1,053,373,128)	(219,873,471)	(14,208,056)	-	(2,874,665,444)
Net book value	12,269,499	84,004,367	567,764,402	1,261,407,340	1,043,827,706	162,849,640	76,941,648	93,680,179	3,302,744,781
For the period ended March 31, 2017									
Opening net book value	12,269,499	84,004,367	567,764,402	1,261,407,340	1,043,827,706	162,849,640	76,941,648	93,680,179	3,302,744,781
Additions	-	3,611,113	1,074,738	16,903,180	14,555,139	3,260,242	134,188	18,436,097	57,974,697
Transfers	-	-	-	-	-	-	-	5,133,395	(5,133,395)
Disposals	-	-	-	(260,115)	-	(40,142)	(595,545)	-	(895,802)
Depreciation charge	-	(1,420,683)	(7,961,869)	(35,680,713)	(43,006,304)	(8,211,305)	(2,432,880)	-	(98,713,754)
Disposals from accumulated depreciation	-	-	-	259,339	-	24,805	226,273	-	510,417
Closing net book value	12,269,499	86,194,797	560,877,271	1,242,629,031	1,015,376,541	157,883,240	79,407,079	106,982,881	3,261,620,339
March 31, 2017									
Cost	12,269,499	158,927,838	939,670,107	2,423,117,869	2,111,755,973	385,943,211	95,821,742	106,982,881	6,234,489,120
Accumulated depreciation	-	(72,733,041)	(378,792,836)	(1,180,488,838)	(1,096,379,432)	(228,059,971)	(16,414,663)	-	(2,972,868,781)
Net book value	12,269,499	86,194,797	560,877,271	1,242,629,031	1,015,376,541	157,883,240	79,407,079	106,982,881	3,261,620,339

There is no foreign exchange differences which has been recognized under property, plant and equipment within the context of TAS 23 as of March 31, 2017 (December 31, 2016: None).

There is no collateral, pledge or mortgage on tangible assets as of March 31, 2017 and 2016.

(*) The Company makes a part of its truck sales with buyback commitment and trucks sold in this scope are monitored in "Vehicles" under Property, Plant and Equipment and their cost value amounts to TL 74,886,033 (December 31, 2016: TL 74,886,033).

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land	Land improvements	Buildings	Machinery & equipment	Models & moulds	Fixtures & furniture	Vehicles (*)	Construction in progress	Total
December 31, 2015									
Cost	12,269,499	150,449,476	905,798,788	2,287,633,288	1,941,078,956	344,842,765	74,225,686	45,464,847	5,761,763,305
Accumulated depreciation	-	(66,615,512)	(339,275,284)	(1,012,441,024)	(892,703,377)	(193,167,100)	(6,842,705)	-	(2,511,045,002)
Net book value	12,269,499	83,833,964	566,523,504	1,275,192,264	1,048,375,579	151,675,665	67,382,981	45,464,847	3,250,718,303
For the period ended March 31, 2016									
Opening net book value	12,269,499	83,833,964	566,523,504	1,275,192,264	1,048,375,579	151,675,665	67,382,981	45,464,847	3,250,718,303
Additions	-	575,470	2,151,374	16,478,498	36,810,681	5,104,035	10,335,868	10,735,950	82,191,876
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	(208,086)	(2,890,242)	(314,845)	(105,555)	(3,587,505)	-	(7,106,233)
Depreciation charge	-	(1,385,395)	(7,911,351)	(34,262,267)	(37,920,546)	(7,468,016)	(2,043,950)	-	(90,991,525)
Disposals from accumulated depreciation	-	-	30,412	2,870,514	314,845	98,559	343,838	-	3,658,168
Closing net book value	12,269,499	83,024,039	560,585,853	1,257,388,767	1,047,265,714	149,304,688	72,431,232	56,200,797	3,238,470,589
March 31, 2016									
Cost	12,269,499	151,024,946	907,742,076	2,301,221,544	1,977,574,792	349,841,245	80,974,049	56,200,797	5,836,848,948
Accumulated depreciation	-	(68,000,907)	(347,156,223)	(1,043,832,777)	(930,309,078)	(200,536,557)	(8,542,817)	-	(2,598,378,359)
Net book value	12,269,499	83,024,039	560,585,853	1,257,388,767	1,047,265,714	149,304,688	72,431,232	56,200,797	3,238,470,589

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	31 March 2017	31 December 2016
Moulds and models	619,929,413	619,244,211
Machinery and equipment	346,603,616	346,071,260
Furniture and fixtures	92,808,348	92,401,648
Buildings	75,927,006	75,767,247
Land improvements	9,894,348	9,718,298
Vehicles	1,473,353	1,428,051
	1,146,636,084	1,144,630,715

The allocation of depreciation expense as of March 31, 2017 and 2016 is as follows:

	31 March 2017	31 March 2016
Cost of production (Note 18)	91,814,674	84,886,821
Research and development expenses (Note 19)	3,942,571	3,439,411
General administrative expenses (Note 19)	1,992,423	1,727,884
Marketing expenses (Note 19)	730,359	643,631
Associated with construction in progress	233,727	293,778
	98,713,754	90,991,525

NOTE 11 - INTANGIBLE ASSETS

December 31, 2016	Rights	Development cost	Development costs in progress	Other	Total
Cost	40,354,083	653,879,256	129,106,756	6,483,701	829,823,796
Accumulated amortisation	(36,497,603)	(235,287,072)	-	(5,475,683)	(277,260,358)
Net book value	3,856,480	418,592,184	129,106,756	1,008,018	552,563,438
For the period ended					
March 31, 2017					
Opening net book value	3,856,480	418,592,184	129,106,756	1,008,018	552,563,438
Additions	800,881	-	40,645,039	-	41,445,920
Disposals	-	-	-	-	-
Amortisation charge	(2,095,037)	(17,009,432)	-	(156,756)	(19,261,225)
Disposals from accumulated amortisation	-	-	-	-	-
Closing net book value	2,562,324	401,582,752	169,751,795	851,262	574,748,133
March 31, 2017					
Cost	41,154,964	653,879,256	169,751,795	6,483,701	871,269,716
Accumulated amortisation	(38,592,640)	(252,296,504)	-	(5,632,439)	(296,521,583)
Net book value	2,562,324	401,582,752	169,751,795	851,262	574,748,133

There is no carrying amounts of fully depreciated intangible assets as of March 31, 2017.

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 11 - INTANGIBLE ASSETS (Continued)

The Company compared the borrowing costs of investment loans in foreign currency to the TL market loan interest and foreign exchange differences and interest costs equal to an amount of TL 1,988,461 (December 31, 2016: TL 5,882,283) has been recognized under property, plant and equipment according to the cumulative approach within the context of TAS 23 as of March 31, 2017.

December 31, 2015	Development costs in progress				Total
	Rights	cost		Other	
Cost	31,101,200	649,415,099	52,668,735	6,460,411	739,645,445
Accumulated amortisation	(29,105,754)	(165,992,349)	-	(4,827,540)	(199,925,643)
Net book value	1,995,446	483,422,750	52,668,735	1,632,871	539,719,802
For the period ended					
March 31, 2016					
Opening net book value	1,995,446	483,422,750	52,668,735	1,632,871	539,719,802
Additions	521,620	23,815,347	-	-	24,336,967
Amortisation charge	(1,879,713)	(17,345,761)	-	(195,399)	(19,420,873)
Closing net book value	637,353	489,892,336	52,668,735	1,437,472	544,635,896
March 31, 2016					
Cost	31,622,820	673,230,446	52,668,735	6,460,411	763,982,412
Accumulated amortisation	(30,985,467)	(183,338,110)	-	(5,022,939)	(219,346,516)
Net book value	637,353	489,892,336	52,668,735	1,437,472	544,635,896

The allocation of amortisation charges relating to March 31, 2017 and 2016 is as follows:

	31 March 2017	31 March 2016
Cost of production (Note 18)	17,420,717	17,693,224
General administrative expenses (Note 19)	1,037,799	1,085,661
Research and development expenses (Note 19)	690,788	593,864
Marketing expenses (Note 19)	75,574	16,456
Associated with construction in progress	36,347	31,668
	19,261,225	19,420,873

NOTE 12 - PREPAID EXPENSES

Short-term prepaid expenses:	31 March 2017	31 December 2016
Advances given for inventories	126,386,329	53,090,751
Other prepaid expenses	9,610,428	5,920,559
	135,996,757	59,011,310

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 12 - PREPAID EXPENSES (Continued)

Long term prepaid expenses:	31 March 2017	31 December 2016
Advances given for investments (*)	238,770,314	178,332,944
	238,770,314	178,332,944

(*) Investment advances given are related to the Company's new vehicle investments. TL 178,287,486 (December 31, 2016: TL 133,801,174) is given to domestic vendors as mould advances and TL 60,482,828 (December 31, 2016: TL 44,531,770) is given for the new investments.

NOTE 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 statement of financial position date and warranty claims of vehicles sold in previous years on a model basis.

Short-term provisions:

	31 March 2017	31 December 2016
Warranty expense provision	89,663,041	93,567,753
Provisions for sales premium (*)	37,261,817	42,672,867
	126,924,858	136,240,620

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

Long-term provisions:

	31 March 2017	31 December 2016
Warranty expense provision	66,018,645	60,819,963
Provisions for lawsuit	40,031,295	39,295,423
	106,049,940	100,115,386

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

	2017	2016
At January 1	39,295,423	39,394,943
Paid during the period	(831,364)	(899,978)
Additions during the period	1,567,236	1,494,772
At March 31	40,031,295	39,989,737

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 13 - PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	2017	2016
At January 1	154,387,716	101,614,941
Paid during the period	(21,376,675)	(21,804,950)
Additions during the period (Note 19)	22,670,645	21,698,790
At March 31	155,681,686	101,508,781
Letters of guarantee and letters of credit	31 March 2017	31 December 2016
Letters of guarantee given to financial institutions due to bank loans	1,046,858,116	1,188,529,373
Letters of guarantee given to customs	43,674,936	41,696,155
Letters of guarantees given to other parties	14,374,450	11,050,963
	1,104,907,502	1,241,276,491
Letters of guarantee given	31 March 2017	31 December 2016
	Original currency	Original currency
	TL	TL
Euro	240,674,087	940,626,533
USD	40,013,000	145,591,302
TL	18,689,667	18,689,667
	1,104,907,502	1,241,276,491

The allocation of collaterals, pledges and mortgages as of March 31, 2017 and December 31, 2016 as follows:

Collaterals, pledges and mortgages given by the Company	31 March 2017	31 December 2016
A. Total amount of collaterals/pledges/mortgages given for its own legal entity	1,104,907,502	1,241,276,491
B. Total amount of collaterals/pledges/mortgages given for participations included in entire consolidation	-	-
C. Total amount of collaterals/pledges/mortgages given to assure debts of third parties, for the purpose of conducting the business activities	-	-
D. Total amount of other collaterals/pledges/mortgages given	-	-
i. Total amount of collaterals/pledges/mortgages given for the parent company	-	-
ii. Total amount of collaterals/pledges/mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals/pledges/mortgages given for third parties that do not fall into C section	-	-
Total	1,104,907,502	1,241,276,491

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 13 - PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

As of March 31, 2017 and December 31, 2016, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

Letters of guarantee taken

		31 March 2017		31 December 2016
	Original currency	TL	Original currency	TL
TL	95,060,718	95,060,718	73,006,333	73,006,333
Euro	7,594,008	29,679,661	7,168,965	26,596,145
USD	382,921	1,393,295	395,912	1,393,295
		126,133,674		100,995,773

Tax dispute:

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

NOTE 14 - COMMITMENTS

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

- a) Based on the 1 year credit agreements made by the Company in 2017, amounting to Euro 40,000,000 with Yapı Kredi and amounting to Euro 40,000,000 with İş Bankası A.Ş. totally Euro 80,000,000, the Company is required to ensure that its export proceeds up to an amount equal to Euro 80,000,000 is transacted through Yapı Kredi accounts and Euro 80,000,000 is transacted through İş Bankası totally Euro 160,000,000 for the year 2017.
- b) Company, also from Türkiye İhracat Kredi Bankası A.Ş (Eximbank);
 - With 8 months term credit amounting to USD 40,000,000 used in August 2016 an amount of USD 40,000,000 export is required to be ensured and
 - With 8 months term credit amounting to Euro 70,000,000 used in October 2016 an amount of Euro 70,000,000 and
 - With 8 months term credit amounting to Euro 35,000,000 used in January 2017 an amount of Euro 35,000,000 export is required to be ensured by the Company.

Sourced by "Merkez Bankası" from "İş Bankası" and "Yapı Kredi Bankası"

- With 8 months term credit amounting to Euro 50,000,000 used in January 2017 an amount of Euro 50,000,000 and
- With 8 months term credit amounting to Euro 35,000,000 used in January 2017 an amount of Euro 35,000,000 export is required to be ensured by the Company.

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 14 - COMMITMENTS (Continued)

Operational lease commitments

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

Operational lease commitments	31 March 2017	31 December 2016
Within 1 year	7,639,797	8,844,353
Between 1 year to 5 years	6,715,249	5,747,250
	14,355,046	14,591,603

NOTE 15 - EMPLOYEE BENEFITS

Liabilities for employee benefit obligations:

	31 March 2017	31 December 2016
Salaries and social charges payable	50,954,137	40,181,192
Social security premiums payable	25,633,476	36,991,060
Withholding income tax payable	8,301,739	22,989,499
Other	1,934,691	2,137,068
	86,824,043	102,298,819

Provision for employee benefits:

	31 March 2017	31 December 2016
Provision for employee benefits	116,635,767	110,024,703
Provision for unused vacation pay liability	24,658,897	20,300,863
	141,294,664	130,325,566

Provision for employee benefits:

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

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

The amount payable consists of one month's salary limited to a maximum of TL 4,426.16 for each year of service as of March 31, 2016 (December 31, 2016 - TL 4,297.21).

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

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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NOTE 15 - EMPLOYEE BENEFITS (Continued)

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

	31 March 2017	31 December 2016
Discount rate (%)	10,8	10,8
Expected salary increase rate (%)	6,0	6,0
Net discount rate	4,50	4,50
Turnover rate to estimate the probability of retirement (%)	4,4	4,4

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Since the Company calculates the reserve for employee benefits once a year, the maximum amount of TL 4,426.16 which was effective as of January 1, 2017 (January 1 - June 30, 2016 - TL 4,092.53) has been used in the calculations.

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

	2017	2016
At January 1	110,024,703	87,579,319
Interest cost	2,962,416	2,266,115
Current year service cost	5,079,010	3,111,184
Paid during the period	(3,493,533)	(3,934,754)
Remeasurement losses	2,063,171	3,878,816
At March 31	116,635,767	92,900,680

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of March 31, 2017 is below:

	Turnover rate related to the probability of retirement				
	Net discount rate	%0,5 decrease	%0,5 increase	%0,5 decrease	%0,5 increase
Sensitivity level					
Rate (%)	(4,0)	(5,0)	95.14	96.14	
Change in provision for employee benefits	6,004,205	(5,533,168)	(4,037,173)	4,443,144	

NOTE 16 - OTHER CURRENT ASSETS

	31 March 2017	31 December 2016
VAT to be deductible (*)	287,409,890	196,050,442
Prepaid taxes and withholding	24,167,156	6,120,078
Other	5,689,981	13,112,597
	317,267,027	215,283,117

(*) The VAT to be deducted from the deduction includes the export VAT invoice for February and March 2017.

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 17 - EQUITY

The composition of the Company’s paid-in capital as of March 31, 2017 and December 31, 2016 is as follows:

Shareholders	Share Group	Shareholders		Shareholders	
		31 March 2017	percentage (%)	31 December 2016	percentage (%)
Koç Holding A.Ş.	B	134,953,357	38.46	134,953,357	38.46
Temel Ticaret ve Yatırım A.Ş.	B	2,355,885	0.67	2,355,885	0.67
Ford Motor Company	C	143,997,037	41.04	143,997,037	41.04
Vehbi Koç Vakfı	A	3,558,449	1.01	3,558,449	1.01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3,259,202	0.93	3,259,202	0.93
Other (Publicly Held)	A	62,786,070	17.89	62,786,070	17.89
Total		350,910,000	100	350,910,000	100
Inflation adjustment to share capital		27,920,283		27,920,283	
Inflation adjusted paid in capital		378,830,283		378,830,283	

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

There are 35,091,000,000 unit of shares (December 31, 2016: 35,091,000,000 unit) with a nominal value of Kr 1 each.

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

In accordance with CMB Financial Reporting Standards, the Company classified the above mentioned reserves under “Restricted reserves”, the amount of restricted reserves is TL 322,456,054 as of March 31, 2017 (December 31, 2016 – TL 284,206,864).

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

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

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

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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NOTE 17 - EQUITY (Continued)

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014. Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable 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 General Assembly Meeting dated as of March 23, 2017, the Company has decided to distribute dividends from the net profit of the year 2016, at the rate of 114% gross (96.90% net), with a total amount of TL 400,037,400 as TL 1.00 gross (Kr 96.90 net) for each share with a value of TL 1. The Company made the dividend payment in April 2017. (In April and November 2016 100% of the gross TL 1 share (TL 85.00 Kr) will be TL 350,910,000 and the TL 1 share will be TL 89.00 gross (net 75.65 Kr) Amounting to TL 312,309,900; a total of 663,219,900 TL cash dividend was distributed).

In accordance with Communiqué No: II-14,1, "Communiqué on the Principles of Financial Reporting In Capital Markets", equity schedule at March 31, 2017 and December 31, 2016 are as follows:

	31 March 2017	31 December 2016
Issued capital	350,910,000	350,910,000
Inflation adjustments on capital	27,920,283	27,920,283
Share premium	8,252	8,252
Gains on remeasurement and/or reclassification of available-for sale financial assets	14,913,093	16,889,917
Losses on cash flow hedges	(394,886,026)	(336,188,927)
Losses on remeasurements of defined benefit plans	(15,669,389)	(14,018,852)
Restricted reserves	322,456,054	284,206,864
- Legal reserves	322,456,054	284,206,864
Retained earnings	2,395,605,184	1,878,584,115
- Inflation adjustment to equity	428,301,244	428,301,244
- Extraordinary reserves	1,967,303,940	1,450,282,871
Net income for the period	272,268,068	955,307,659
Share capital	2,973,525,519	3,163,619,311

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

NOTE 17 - EQUITY (Continued)

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended March 31, 2017 and December 31, 2016 are as follows:

31 March 2017:	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910,000	378,830,283	27,920,283
Legal reserves	322,456,054	381,208,658	58,752,604
Extraordinary reserves	1,967,303,940	2,336,448,956	369,145,016
Share premium	8,252	361,733	353,481
Other reserves	-	50,143	50,143
	2,640,678,246	3,096,899,773	456,221,527

31 December 2016:	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910,000	378,830,283	27,920,283
Legal reserves	284,206,864	342,959,468	58,752,604
Extraordinary reserves	1,450,282,871	1,819,427,887	369,145,016
Share premium	8,252	361,733	353,481
Other reserves	-	50,143	50,143
	2,085,407,987	2,541,629,514	456,221,527

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

Otokar shares which are publicly traded in BIST are valued at their closing price as of March 31, 2017 and December 31, 2016. As of December 31, 2016, fair value change (negative) amounting to TL (1,976,284) net of deferred tax, (December 31, 2016 - TL 5,823,617) 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:

	2017	2016
At January 1	(333,317,862)	(144,994,066)
Losses (gains) on remeasurement and/or reclassification of available-for sale financial assets	(1,976,824)	2,430,959
Losses on remeasurements of defined benefit plans	(1,650,537)	(3,103,053)
Losses (gains) on cash flow hedges	(58,697,099)	1,298,464
At March 31	(395,642,322)	(144,367,696)

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 18 - REVENUE AND COST OF SALES

	31 March 2017	31 March 2016
Export sales	4,262,190,868	3,093,875,539
Domestic sales	1,245,374,159	1,263,555,194
Other sales	25,331,986	14,539,560
Less: Discounts	(138,019,694)	(186,554,409)
	5,394,877,319	4,185,415,884

Units of vehicle sales:

	31 March 2017			31 March 2016		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	1,202	39,662	40,864	1,277	34,305	35,582
Transit	4,903	26,387	31,290	5,313	27,888	33,201
Transit Courier	5,796	9,342	15,138	6,773	9,083	15,856
Passenger vehicles	4,561	224	4,785	7,259	136	7,395
Cargo	779	164	943	916	135	1,051
New Transit Connect	427	6	433	532	-	532
Ranger	526	14	540	26	-	26
	18,194	75,799	93,993	22,096	71,547	93,643

Summaries of cost of production as of March 31, 2017 and 2016 are as follows:

	31 March 2017	31 March 2016
Raw material cost	(4,057,942,221)	(3,037,454,994)
Production overhead costs	(261,989,486)	(251,077,463)
Depreciation and amortization expenses (Note 10 &11)	(109,235,391)	(102,580,045)
Change in finished goods inventory	58,726,630	163,300,879
Total production cost	(4,370,440,468)	(3,227,811,623)
Cost of trade goods sold	(472,126,955)	(492,347,809)
Total cost of sales	(4,842,567,423)	(3,720,159,432)

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 19 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	31 March 2017	31 March 2016
Marketing expenses:		
Warranty expenses (Note 13)	(22,670,645)	(21,698,790)
Advertising expenses	(26,099,085)	(20,298,654)
Personnel expenses	(20,448,198)	(16,529,865)
Vehicle transportation expenses	(9,061,811)	(16,468,572)
Spare parts transportation and packaging expenses	(4,723,095)	(3,914,789)
Dealer and service development expenses	(3,765,530)	(2,663,651)
Export expenses	(3,744,943)	(3,228,950)
Depreciation and amortization expense (Note 10 &11)	(805,933)	(660,087)
Other	(14,264,028)	(5,344,857)
	(105,583,268)	(90,808,215)
General administrative expenses:		
Personnel expenses	(25,205,463)	(22,106,310)
Legal, consulting and auditing expenses	(5,580,489)	(821,576)
Grants and donations	(5,162,664)	(3,923,963)
Organization expenses	(966,310)	(719,217)
New project administrative expenses	(954,937)	(1,878,704)
Depreciation and amortization expense (Notes 10 and 11)	(3,030,222)	(2,813,545)
Travel expenses	(994,584)	(2,398,124)
Duties, taxes and levies	(1,443,999)	(1,197,383)
Repair, maintenance and energy expenses	(932,046)	(695,792)
Other	(8,283,460)	(7,039,757)
	(52,554,174)	(43,594,371)
Research and development expenses:		
Personnel expenses	(41,051,387)	(42,063,564)
Project costs	(11,502,739)	(20,826,427)
Mechanization expense	(11,857,838)	(9,100,114)
Depreciation and amortization expenses (Note 10 &11)	(4,633,359)	(4,033,275)
Other	(6,037,291)	(2,864,983)
	(75,082,614)	(78,888,363)

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 20 - EXPENSES BY NATURE

The classification of expenses by nature for the year ended at March 31, 2017 and 2016 is as follows:

	31 March 2017	31 March 2016
Raw material cost	(4,057,942,221)	(3,037,454,994)
Cost of trade goods sold	(472,126,955)	(492,347,809)
Personnel expenses	(226,768,444)	(214,178,473)
Financial expenses	(132,906,938)	(64,374,614)
Other operational expenses	(138,045,492)	(125,084,303)
Other overhead expenses	(121,926,090)	(117,598,729)
Depreciation and amortization expenses	(117,704,905)	(110,086,952)
Other operational expenses	(80,402,163)	(53,867,887)
Change in finished goods inventory	58,726,630	163,300,879
Expenses from investing activities	-	(1,156,558)
Total expenses	(5,289,096,578)	(4,052,849,440)

NOTE 21 - OTHER OPERATING INCOME/EXPENSES

	31 March 2017	31 March 2016
Other operating income		
Foreign exchange gains related to trade receivables and payables	52,626,734	5,412,697
Credit finance gains	22,886,824	24,270,014
License fees income	2,593,676	2,248,961
Rent income	1,431,942	1,894,468
Commission income	908,853	990,115
Price difference and claim recovery	874,896	1,177,266
Other	10,222,802	2,945,483
	91,545,727	38,939,004
Other operating expenses:		
Credit finance charge	(32,368,644)	(32,488,857)
Foreign exchange losses related to trade receivables and payables	(46,239,541)	(19,462,584)
Other	(1,793,979)	(1,916,446)
	(80,402,164)	(53,867,887)

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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NOTE 22 - FINANCIAL INCOME

	31 March 2017	31 March 2016
Foreign exchange gains	69,703,599	32,960,421
Interest income	12,692,364	5,520,875
	82,395,963	38,481,296

NOTE 23 - FINANCIAL EXPENSES

	31 March 2017	31 March 2016
Foreign exchange losses	(117,994,985)	(50,274,035)
Interest expenses	(10,967,126)	(10,858,384)
Other financial expenses	(3,944,827)	(3,242,195)
	(132,906,938)	(64,374,614)

NOTE 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 2017 is 20% (December 31, 2016 - 20%). Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc.) and corporate income tax deductions (like research and development expenditures deduction). No further tax is payable unless the profit is distributed.

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

There are many exemptions in Corporate Tax Law regarding corporations. Those related to the Company are explained below:

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

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

As of March 31, 2017, the Company used R&D deduction of TL 88,869,950 (March 31, 2016: TL 85,000,000) in return for the legal tax.

The decree on Government Subsidies for Incentives regulating investment incentives was published in the official gazette and became effective on 16 July 2009. Within the scope of this decree, the Company acquired a large-scaled investment incentive certificate subject investment is located in the 1. Region and has a 30% rate of contribution to investment. As of the statement of the financial position date, in the framework of the related investment incentive certificates, an investment expense of TL 559,294,788 (March 31, 2016: TL 559,294,788) was made and subject to document expenditures is completed.

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

As of the date of statement of financial position, the investment expenditures amounting to TL 2,267,720,885 (March 31, 2016: TL 2,010,299,276) was made in the framework of the related new investment incentive certificates and the Company utilized discounted corporate taxation amounting to TL 30,950,322 (March 31, 2016: TL 21,735,234) in the current year and this amount has been deducted from the total deferred tax asset.

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

The Company's net tax position as of March 31, 2017 and 2016 are as follows:

	31 March 2017	31 March 2016
Current year corporate tax expense	4,145,058	6,206,690
Prepaid tax and withholding	(4,145,058)	(6,206,690)
Current years' profit tax liability	-	-

The taxation on income for the periods ended March 31, 2017 and 2016 are as follows;

	31 March 2017	31 March 2016
Current year corporate tax expense	(4,145,058)	(6,206,690)
Current year tax effect of cash flow hedge	(14,674,275)	324,616
Deferred tax	11,001,296	(1,054,173)
	(7,818,037)	(6,936,247)

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at March 31, 2017 and 2016 and current tax ratio based on income before tax is as follows:

	31 March 2017	31 March 2016
Income before tax	280,086,105	209,986,744
Effective tax rate	20%	20%
Current year tax expense	(56,017,221)	(41,997,349)
R&D deduction	17,773,990	17,100,000
Investment incentive exemption	30,954,694	25,668,011
Other temporary differences	(529,500)	(7,706,909)
	(7,818,037)	(6,936,247)

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

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at March 31, 2017 and December 31, 2016 using the current enacted tax rates is as follows:

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 March 2017	31 December 2016	31 March 2017	31 December 2016
Deferred tax assets:				
Investment incentive tax asset	4,013,124,208	3,987,624,184	740,043,373	740,039,001
Expense accruals and other provisions	293,240,844	306,055,027	58,648,166	61,211,004
Employee benefits provision	116,635,767	110,024,703	23,327,153	22,004,941
Warranty expense provision	155,681,686	154,387,716	31,136,337	30,877,543
Inventories	27,671,582	33,381,397	5,534,316	6,676,279
			858,689,345	860,808,768
Deferred tax liabilities:				
Tangibles and intangibles	1,394,459,721	1,430,270,546	(278,891,944)	(286,054,109)
Income accruals and other	59,828,970	92,205,131	(11,965,794)	(18,441,025)
			(290,857,738)	(304,495,134)
Net deferred tax asset			567,831,607	556,313,634

Deferred tax movements are as follows:

	1 January 2017	Charged to statement of profit or loss as (expense)/income	Charged to comprehensive income statement as (expense)/income	31 March 2017
Deferred tax liabilities:				
Tangible and intangible assets	(286,054,109)	7,162,165	-	(278,891,944)
Income accruals and other	(18,441,025)	6,371,188	104,043	(11,965,794)
Deferred tax assets:				
Investment incentive tax asset	740,039,001	4,372	-	740,043,373
Expense accruals and other	61,211,004	(2,562,838)	-	58,648,166
Provision for employee benefits	22,004,941	909,578	412,634	23,327,153
Warranty expense provision	30,877,543	258,794	-	31,136,337
Inventories	6,676,279	(1,141,963)	-	5,534,316
Deferred tax asset, net	556,313,634	11,001,296	516,677	567,831,607

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NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

	1 January 2016	Charged to statement of profit or loss as (expense)/income	Charged to comprehensive income statement as income/(expense)	31 March 2016
Deferred tax liabilities:				
Tangible and intangible assets	(266,800,745)	(11,018,485)	-	(277,819,230)
Income accruals and other	(12,440,198)	563,963	(127,945)	(12,004,180)
Deferred tax assets:				
Investment incentive tax asset	718,282,976	3,932,777	-	722,215,753
Expense accruals and other	18,224,017	6,629,807	-	24,853,824
Provision for employee benefits	17,515,863	288,509	775,763	18,580,135
Warranty expense provision	20,322,988	(21,232)	-	20,301,756
Inventories	7,428,029	(1,429,512)	-	5,998,517
Deferred tax asset, net	502,532,930	(1,054,173)	647,818	502,126,575

NOTE 25 - EARNINGS PER SHARE

	31 March 2017	31 March 2016
Net income for the year (TL)	272,268,068	203,050,497
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	0.78 Kr	0.58 Kr

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

The related party balances at March 31, 2017 and December 31, 2016 and the transactions with related parties during the year are as follows:

a) Receivables from related parties:

i) *Trade receivable from related parties*

	31 March 2017	31 December 2016
Due from shareholders:		
Ford Motor Company and its subsidiaries	1,218,810,702	892,539,806
	1,218,810,702	892,539,806

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	31 March 2017	31 December 2016
Due from group companies (*):		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	394,701,317	474,021,168
Other	255,308	1,069,495
	394,956,625	475,090,663
Less: Unearned credit finance income	(3,159,264)	(4,681,752)
	1,610,608,063	1,362,948,717

(*) 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. Receivables from the Ford Motor Company are due in 14 days and receivables are collected regularly.

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

b) Payables to related parties:

i) Trade payables to related parties

	31 March 2017	31 December 2016
Due to shareholders:		
Ford Motor Company and its subsidiaries	778,748,634	698,912,624
	778,748,634	698,912,624

Trade payables due to related parties (*):

Zer Merkezi Hizmetler ve Ticaret A.Ş.	44,639,497	34,059,917
Ram Dış Ticaret A.Ş.	29,810,813	27,150,373
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	4,785,712	10,958,193
Setur Servis Turistik A.Ş.	2,576,516	7,030,662
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	8,234,166	6,695,234
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	2,348,555	2,434,071
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2,377,409	2,330,676
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,433,524	1,370,022
Ram Sigorta Aracılık Hizmetleri A.Ş.	249,574	475,977
Other	1,689,888	3,298,756
	98,145,654	95,803,881
Less: Unearned credit finance expense	(787,437)	(533,394)
	876,106,851	794,183,111

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

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) *Other payables to related parties*

	31 March 2017	31 December 2016
Koç Holding A.Ş. (*)	167,679,458	8,577,780
Ford Motor Company (*)	164,156,622	-
Yapı ve Kredi Bankası A.Ş.	-	2,843,097
Koç Tüketici Finansmanı A.Ş.	-	7,342,294
Other (Publicly traded) (*)	71,576,120	-
	403,412,200	18,763,171

(*) March 31, 2017 considerations Shareholders are paid dividends and dividends are paid in April 2017.

c) *Sales to related parties:*

	31 March 2017	31 March 2016
Ford Motor Company (*)	4,210,190,435	3,066,793,215
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	305,830,973	298,698,275
Other	3,188	35,498
	4,516,024,596	3,365,526,988
Less: Financial income from credit sales	(6,320,986)	(5,737,995)
	4,509,703,610	3,359,788,993

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

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

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

	1 January – 31 March 2017			
	Material	Service	Fixed Assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	4,048,050	59,776,584	34,443	63,859,077
Ram Dış Ticaret A.Ş.	32,944,426	-	-	32,944,426
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	4,730,110	1,178,321	5,908,431
Setur Servis Turistik A.Ş.	-	5,216,353	-	5,216,353
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	4,120,844	1,012,731	5,133,575
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	4,853,893	-	-	4,853,893
Ram Sigorta Aracılık Hizmetleri A.Ş.(**)	-	3,699,581	-	3,699,581
Koç Holding A.Ş. (*)	-	2,860,000	-	2,860,000
Koçtaş Yapı Marketleri Ticaret A.Ş.	2,656,621	-	7,437	2,664,058
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2,284,501	-	-	2,284,501
Opet Petrolcülük A.Ş.	1,049,730	-	-	1,049,730
Tanı Pazarlama İlet.Hiz.A.Ş.	-	374,774	-	374,774
Other	-	1,216,434	-	1,216,434
	47,837,221	81,994,680	2,232,932	132,064,833
Less: Financial expense from credit purchases	(798,726)	-	-	(798,726)
	47,038,495	81,994,680	2,232,932	131,266,107

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

(**) Contains paid and accrued premium amounts for the interim periods ended March 31, 2017 and 2016 within the context of insurance policies signed with insurance Companies through the agency of Ram Sigorta Aracılık Hizmetleri A.Ş.

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January – 31 March 2016			
	Material	Service	Fixed Assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	2,941,602	45,973,398	15,760	48,930,760
Ram Dış Ticaret A.Ş.	25,530,685	-	-	25,530,685
Setur Servis Turistik A.Ş.	-	5,964,472	-	5,964,472
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	3,848,294	-	-	3,848,294
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	1,745,390	1,545,573	3,290,963
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	-	3,285,273	-	3,285,273
Koç Holding A.Ş. (**)	-	2,778,633	-	2,778,633
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2,281,717	-	-	2,281,717
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	2,254,569	-	-	2,254,569
Opet Petrolcülük A.Ş.	854,587	-	-	854,587
Tanı Pazarlama İlet.Hiz.A.Ş.	-	537,224	-	537,224
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	80,789	449,040	529,829
Other	19,935	1,322,299	-	1,342,234
	37,731,389	61,687,478	2,010,373	101,429,240
Less: Financial expense from credit purchases	(741,322)	-	-	(741,322)
	36,990,067	61,687,478	2,010,373	100,687,918

Material, vehicle and service purchases from abroad:

	31 March 2017	31 March 2016
Ford Motor Company and its subsidiaries	2,467,037,342	1,847,592,880
e) License fees paid to Ford Motor Company included in cost of sales:		
	31 March 2017	31 March 2016
	24,309,343	23,433,526
f) License fees received from Jiangling Motors Corporation, a subsidiary of Ford Motor Company, included in other income		
	31 March 2017	31 March 2016
	2,593,676	2,248,961
g) Donations to Koç Group foundations, included in general administrative expenses:		
	31 March 2017	31 March 2016
	5,148,224	3,812,582

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

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

Deposits in related banks:	31 March 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş.		
- Banks - foreign currency time deposits	200,898,630	-
- Banks - TL demand deposits	97,516,092	251,505,872
- Banks - foreign currency demand deposits	10,415,094	17,416,469
- Banks - TL time deposits	165,642	238,947
	308,995,458	269,161,288

i) Commission income:

	31 March 2017	31 March 2016
Koç Finansman A.Ş	545,008	648,795
Yapı ve Kredi Bankası A.Ş.	363,846	336,037
	908,854	984,832

i) Commission expense:

	31 March 2017	31 March 2016
Koç Finansman A.Ş.	7,908,524	9,848,163
Yapı ve Kredi Bankası A.Ş.	3,972,375	2,279,722
	11,880,899	12,127,885

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

j) Interest income:

	31 March 2017	31 March 2016
Yapı ve Kredi Bankası A.Ş.	2,314,991	1,687,877

k) Dividend income:

	31 March 2017	31 March 2016
Otokar Otomotiv ve Savunma Sanayi A.Ş.	351,498	-

l) Compensation of key management personnel:

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

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

The total amount of compensation given to key management personnel of the Company as of March 31, 2017 was TL 4,153,971 (March 31, 2016: TL 4,349,305).

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below summarizes the Company's exposure to foreign currency exchange rate risk at March 31, 2017 and December 31, 2016. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

31 March 2017

	TL (Functional currency)	USD	Euro	GBP
1. Trade receivables	1,280,778,373	24,090,408	305,279,281	-
2. Monetary financial assets (including cash and cash equivalents)	424,823,548	40,088,940	71,374,888	323
3. Other	243,353,350	5,110,827	57,507,637	-
4. Current assets (1 + 2 + 3)	1,948,955,271	69,290,175	434,161,806	323
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	1,948,955,271	69,290,175	434,161,806	323
8. Trade payables	893,549,848	18,544,652	211,319,731	38,162
9. Financial liabilities (*)	1,612,125,811	40,000,000	375,248,013	-
10. Other monetary liabilities	89,637,724	442,118	22,401,171	105,943
11. Short term liabilities (8 + 9 + 10)	2,595,313,383	58,986,770	608,968,915	144,105
12. Financial liabilities (*)	1,446,784,688	-	370,182,608	-
13. Long term liabilities (12)	1,446,784,688	-	370,182,608	-
14. Total liabilities (11 + 13)	4,042,098,071	58,986,770	979,151,523	144,105
15. Net foreign currency assets/(liabilities) position (7 - 14)	(2,093,142,800)	10,303,405	(544,989,717)	(143,782)
16. Net monetary foreign currency assets/(liabilities) (1 + 2 + 5 - 8 - 9 - 10 - 12)	(2,336,496,150)	5,192,578	(602,497,354)	(143,782)

(*) The Company's net foreign exchange position is mainly due to long term Euro denominated loans obtained to fund its investments. The Company is hedged for the foreign currency exchange risk of a portion of those Euro denominated loans amounting to TL 2,052,482,527 at March 31, 2017 by export agreements signed with Ford Motor Company. (December 31, 2016 TL 2,082,684,834).

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2016

	TL (Functional currency)	USD	Euro	GBP
1. Trade receivables	958,508,188	22,467,509	237,052,355	-
2. Monetary financial assets (including cash and cash equivalents)	752,258,040	40,114,356	164,708,064	8,602
3. Other	210,842,877	6,878,200	50,307,857	-
4. Current assets (1 + 2 + 3)	1,921,609,105	69,460,065	452,068,276	8,602
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	1,921,609,105	69,460,065	452,068,276	8,602
8. Trade payables	820,274,809	27,858,229	193,505,050	1,007,605
9. Financial liabilities (*)	1,348,274,857	40,000,000	325,482,319	-
10. Other monetary liabilities	82,070,050	385,998	21,709,929	39,357
11. Short term liabilities (8 + 9 + 10)	2,250,619,716	68,244,227	540,697,298	1,046,962
12. Financial liabilities (*)	1,503,854,665	-	405,362,588	-
13. Long term liabilities (12)	1,503,854,665	-	405,362,588	-
14. Total liabilities (11 + 13)	3,754,474,381	68,244,227	946,059,886	1,046,962
15. Net foreign currency assets/(liabilities) position (7 - 14)	(1,832,865,276)	1,215,838	(493,991,610)	(1,038,360)
16. Net monetary foreign currency assets/(liabilities) (1 + 2 + 5 - 8 - 9 - 10 - 12)	(2,043,708,153)	(5,662,362)	(544,299,467)	(1,038,360)

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk

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

31 March 2017

	Profit/(loss) before taxation	
Appreciation in foreign currency/depreciation in foreign currency		
	Increase by 10%	Decrease by 10%
Change in USD against TL		
US Dollar net assets/(liabilities)	3,748,997	(3,748,997)
US Dollar net hedged amount	-	-
US Dollar net- (gain)/(loss)	3,748,997	(3,748,997)
Change in Euro against TL		
Euro net (liabilities)/assets	(212,998,332)	212,998,332
Euro net hedged amount	205,248,253	(205,248,253)
Euro net- gain/(loss)	(7,750,079)	7,750,079
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities)/assets	(64,945)	64,945
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net -(loss)/gain	(64,945)	64,945

31 December 2016

	Profit/(loss) before taxation	
Appreciation in foreign currency/depreciation in foreign currency		
	Increase by 10%	Decrease by 10%
Change in USD against TL		
US Dollar net assets/(liabilities)	427,878	(427,878)
US Dollar net hedged amount	-	-
US Dollar net- gain/(loss)	427,878	(427,878)
Change in Euro against TL		
Euro net (liabilities)/assets	(183,265,948)	183,265,948
Euro net hedged amount	208,268,483	(208,268,483)
Euro net- gain/(loss)	25,002,535	(25,002,535)
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities)/assets	(448,457)	448,457
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	(448,457)	448,457

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The comparative amounts for total export and import amounts for the year ended March 31, 2017 and 2016 are as follows:

	31 March 2017	31 March 2016
Total export amount	4,262,190,868	3,093,875,539
Total import amount	2,570,118,015	1,949,865,578

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

Interest rate risk

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

	31 March 2017	31 December 2016
Fixed interest rate financial instruments		
Financial assets	1,347,402,063	1,157,394,395
Financial liabilities	1,510,013,982	1,614,034,149
Floating interest rate financial instruments		
Financial liabilities	1,550,753,121	1,230,916,521

If the interest rates of floating interest-bearing Euro denominated borrowings were 100 basis points higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TL 4,117,502 at March 31, 2017 (December 31, 2016: TL 2,470,409) due to higher/lower interest expense.

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

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

31 March 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	3,070,139,514	3,127,384,661	697,037,417	921,521,006	1,508,826,239	-
Trade payables						
- Related party	876,106,851	876,894,288	876,894,288	-	-	-
- Other	1,947,246,536	1,959,671,629	1,959,671,629	-	-	-
Other liabilities						
- Related party	403,412,200	403,412,200	403,412,200	-	-	-
- Other	119,841,123	119,841,123	119,841,123	-	-	-

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2016	Book value	Total contractual cash outflow	Up to 3 months	Between 3-12 months	Between 1-5 years	Longer than 5 years
Non-derivative financial instruments						
Financial liabilities	2,852,129,523	2,927,145,312	401,094,093	954,749,819	1,540,258,966	31,042,434
Trade payables						
- Related party	794,183,111	794,716,505	794,716,505	-	-	-
- Other	1,823,159,788	1,832,581,984	1,832,581,984	-	-	-
Other liabilities						
- Related party	18,763,171	18,763,171	18,763,171	-	-	-
- Other	76,128,915	76,128,915	76,128,915	-	-	-

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 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 March 31, 2017 and December, 31 2016, the Company's hierarchy table for its assets and liabilities recorded at fair value are as follows:

31 March 2017

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Financial asset available-for-sale - Otokar	16,675,602	-	-
Total assets	16,675,602	-	-
Liabilities at fair value			
Cash flow hedge swap transaction	-	-	-
Total Liabilities	-	-	-

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

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

31 December 2016

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Financial asset available-for-sale - Otokar	18,755,930	-	-
Total Assets	18,755,930	-	-
Liabilities at fair value			
Cash flow hedge swap transaction	-	-	-
Total Liabilities	-	-	-

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

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 28 - DERIVATIVE FINANCIAL INSTRUMENTS

There is an effective foreign currency cash flow hedge relationship between foreign currency long term financial borrowings related with investment expenditures (non-derivative hedging instrument) and highly probable forecast transaction export sales receivables (hedged item). In the frame of the manufacturing agreement signed with Ford Motor Company, the Company will associate a portion of estimated export revenue from April 1, 2013 to December 2022 with long term financial borrowings.

	31 March 2017	31 December 2016
Cash flow hedge reserve:		
Amount recognized in other comprehensive income	111,114,321	303,001,013
Amount recycled from other comprehensive income to statement of profit or loss	(37,742,947)	(75,774,668)
	73,371,374	227,226,345

NOTE 29 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	31 March 2017	31 March 2016
Income from investing activities		
Dividend income	351,498	-
Fixed asset sales profit	12,179	-
	363,677	-
	31 March 2017	31 March 2016
Expenses from investing activities		
Loss on sales of property, plant and equipment	-	(1,156,558)
	-	(1,156,558)

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 30 - DEFERRED REVENUE

	31 March 2017	31 December 2016
Advances taken	12,321,879	8,811,150
	12,321,879	8,811,150

	31 March 2017	31 December 2016
Long term deferred revenue	3,407,631	4,757,073
	3,407,631	4,757,073

NOTE 31 - OTHER NON-CURRENT LIABILITIES

	31 March 2017	31 December 2016
Other non-current liabilities (*)	79,527,756	75,619,680
	79,527,756	75,619,680

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

NOTE 32 - GOVERNMENT INCENTIVES AND GRANTS

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

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

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

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO FINANCIAL STATEMENT AT MARCH 31, 2017

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

NOTE 32 - GOVERNMENT INCENTIVES AND GRANTS (Continued)

Additionally, the Company has obtained primary investment incentive certificate at an amount of TL 849.160,000 because of replacement and factory modernization investments which shall be made in following periods related to Ford Transit, Ford Transit Courier and Ford Transit Custom models whose production is still going on in during 2016. The aforementioned investments shall benefit from 5th Region and 40% incentive ratio supports in accordance with new incentives legislation.

NOTE 33 - SUBSEQUENT EVENTS

As of April 3, 2017, the Company paid cash dividend distribution of 114.0% with a total gross of TL 1.14 (net of 96.90 Kurus) and a total of TL 400,037,400 from the profit of 2016 with the decision, taken in the Ordinary General Meeting held on March 23, 2017.

The Company signed a loan agreement with the EBRD (European Bank for Reconstruction and Development) amount to € 150 Million, for financing upcoming investment projects on April 25, 2017.

NOTE 34 - DISCLOSURE OF OTHER MATTERS

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

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