

FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS FOR THE INTERIM PERIOD**

1 JANUARY – 30 JUNE 2017

TOGETHER WITH INDEPENDENT AUDITOR’S REVIEW REPORT

(ORIGINALLY ISSUED IN TURKISH)



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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

1. We have reviewed the accompanying statement of balance sheet of Ford Otomotiv Sanayi A.Ş. (the "Company") as at 30 June 2017 and the related statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. The management of the Company is responsible for the preparation and fair presentation of these interim financial information in accordance with Turkish Accounting Standard 34 ("TAS 34") "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial information based on our review.

Scope of Review

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

Conclusion

3. Based on our review, nothing has come to our attention that causes us to conclude that the accompanying interim financial information does not give a true and fair view of the financial position and financial performance of Ford Otomotiv Sanayi A.Ş. as of 30 June 2017, and of its cash flows for the six-month period then ended in accordance with TAS 34.



Other Matter

4. The financial statements of the Company as of 31 December 2016 and for the year then ended were audited and the interim financial information as of 30 June 2016 and for the six-month period then ended were reviewed by another audit firm whose audit report dated 14 February 2017 expressed an unqualified opinion and whose review report dated 2 August 2016 expressed a conclusion that no material non-compliance with respect to TAS 34 has come to their attention.

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

A handwritten signature in blue ink, appearing to read 'Beste Gücümén', written over a horizontal line.

Beste Gücümén, SMMM
Partner

Istanbul, 3 August 2017

**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

FORD OTOMOTİV SANAYİ A.Ş.

**INTERIM FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY – 30 JUNE 2017**

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

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**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORGINALLY ISSUED IN TURKISH**

FORD OTOMOTİV SANAYİ A.Ş.

BALANCE SHEETS

AT 30 JUNE 2017 AND 31 DECEMBER 2016

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

	Notes	Current period Reviewed 30 June 2017	Previous period Audited 31 December 2016
Assets			
Current Assets		5.578.640.632	4.675.977.017
Cash and cash equivalents	4	1.736.931.123	1.189.032.567
Trade receivables			
- Due from related parties	26	1.394.709.874	1.362.948.717
- Due from third parties	7	782.683.001	794.771.069
Other receivables			
- Due from third parties	8	1.838.084	503.875
Inventories	9	1.255.898.715	1.054.426.362
Prepaid expenses	12	94.953.636	59.011.310
Other current assets	16	309.142.252	213.525.972
Current tax assets	24	2.483.947	1.757.145
Non-current assets		4.778.043.592	4.610.175.096
Financial assets	5	15.578.389	18.755.930
Trade receivables			
- Due from third parties	7	1.740.717	1.464.369
Property, plant and equipment	10	3.286.890.327	3.302.744.781
Intangible assets	11	602.043.675	552.563.438
Prepaid expenses	12	286.378.046	178.332.944
Deferred tax assets	24	585.412.438	556.313.634
Total assets		10.356.684.224	9.286.152.113

Financial statements for the interim period 1 January – 30 June 2017 were approved for issue by the Board of Directors on August 3, 2017.

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

FORD OTOMOTİV SANAYİ A.Ş.

BALANCE SHEETS

AT 30 JUNE 2017 AND 31 DECEMBER 2016

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

	Notes	Current period Reviewed 30 June 2017	Previous period Audited 31 December 2016
Liabilities			
Current liabilities		4.740.063.528	4.307.860.431
Short-term borrowings			
- Bank borrowings	6	1.025.513.345	771.571.881
Short-term portion of long-term borrowings			
- Bank borrowings	6	617.565.460	576.702.976
Trade payables			
- Due to related parties	26	619.879.583	794.183.111
- Due to third parties	7	2.145.884.205	1.823.159.788
Other payables			
- Due to related parties	26	3.374.800	18.763.171
- Due to third parties	8	85.875.067	76.128.915
Deferred revenue	30	9.873.715	8.811.150
Short-term provisions			
- Other provisions	13	136.936.214	136.240.620
Employee benefit liabilities	15	95.161.139	102.298.819
Non-current liabilities		2.284.929.976	1.814.672.371
Long-term borrowings			
- Bank borrowings	6	1.932.823.592	1.503.854.666
Long-term provisions			
- Provision for employment termination benefits	15	147.592.690	130.325.566
- Other provisions	13	114.630.486	100.115.386
Deferred revenue	30	4.259.445	4.757.073
Other non-current liabilities	31	85.623.763	75.619.680
Equity	17	3.331.690.720	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 comprehensive income/(loss) not to be reclassified under profit or loss			
- Losses on remeasurements of defined benefit plans		(12.853.370)	(14.018.852)
Other comprehensive income/(loss) to be reclassified in profit or loss			
- Gains on remeasurements and/or reclassification of available-for-sale financial assets		13.871.253	16.889.917
- Losses on cash flow hedges		(400.144.899)	(336.188.927)
Restricted reserves		322.456.054	284.206.864
Retained earnings		2.395.605.184	1.878.584.115
Net profit for the period		633.917.963	955.307.659
Total liabilities and equity		10.356.684.224	9.286.152.113

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

FORD OTOMOTİV SANAYİ A.Ş.

**STATEMENTS OF PROFIT OR LOSS
FOR THE INTERIM PERIODS ENDED 30 JUNE 2017 AND 2016**

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

	Notes	Reviewed 1 January 2017 - 30 June 2017	Unaudited 1 April 2017 - 30 June 2017	Reviewed 1 January 2016 - 30 June 2016	Unaudited 1 April 2016 - 30 June 2016
Continuing operations					
Revenue	18	11.652.607.963	6.257.730.644	8.799.836.919	4.614.421.035
Cost of sales (-)	18	(10.480.702.401)	(5.638.134.978)	(7.805.958.946)	(4.085.799.514)
Gross profit		1.171.905.562	619.595.666	993.877.973	528.621.521
Marketing expenses	19	(232.585.741)	(127.002.473)	(206.386.057)	(115.577.842)
General administrative expenses	19	(113.894.959)	(61.340.785)	(101.426.200)	(57.831.829)
Research and development expenses	19	(147.549.474)	(72.466.860)	(156.244.985)	(77.356.622)
Other income from operating activities	21	161.950.830	70.405.103	87.200.492	48.261.488
Other expenses from operating activities	21	(131.743.292)	(51.341.128)	(96.166.409)	(42.298.522)
Profit from operating activities		708.082.926	377.849.523	520.854.814	283.818.194
Income from investing activities	29	363.677	-	421.798	421.798
Expenses from investing activities	29	(1.479.005)	(1.479.005)	(1.153.331)	3.227
Profit before financing income		706.967.598	376.370.518	520.123.281	284.243.219
Financial income	22	177.840.381	95.444.418	162.355.600	123.874.304
Financial expenses	23	(254.489.343)	(121.582.405)	(206.214.592)	(141.839.978)
Profit from continuing operations, before tax		630.318.636	350.232.531	476.264.289	266.277.545
Tax income/(expense) from continuing operations		3.599.327	11.417.364	(12.161.631)	(5.225.384)
- Current tax expenses	24	(9.642.977)	(5.497.919)	(15.155.143)	(8.948.453)
- Deferred tax income/(expenses)	24	13.242.304	16.915.283	2.993.512	3.723.069
Net profit from continuing operations		633.917.963	361.649.895	464.102.658	261.052.161
Earnings per share with a nominal value Kr 1	25	1,81 Kr	1,03 Kr	1,32 Kr	0,74 Kr

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

FORD OTOMOTİV SANAYİ A.Ş.

**STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE INTERIM PERIODS ENDED 30 JUNE 2017 AND 2016**

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

	Notes	Reviewed 1 January 2017 - 30 June 2017	Unaudited 1 April 2017 - 30 June 2017	Reviewed 1 January 2016 - 30 June 2016	Unaudited 1 April 2016 - 30 June 2016
Net profit		633.917.963	361.649.895	464.102.658	261.052.161
Other comprehensive income					
Other comprehensive income not to be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	17	1.456.852	3.520.023	(3.476.458)	402.358
Other comprehensive income tax not to be reclassified to profit or loss					
Taxes relating to remeasurements of defined benefit plans	17	(291.370)	(704.004)	695.292	(80.471)
Other comprehensive income to be reclassified to profit or loss					
(Losses)/gains on remeasurements or reclassification					
adjustments on available-for-sale financial assets	17	(3.177.541)	(1.096.674)	1.012.314	(1.546.590)
(Losses)/gains on cash flow hedges	17	(79.944.965)	(6.573.591)	18.564.442	16.941.362
Other comprehensive income taxes to be reclassified to profit or loss					
Taxes relating to gains/(losses) on remeasurements or					
reclassification adjustments on available-for-sale financial assets	17	158.877	54.834	(50.616)	77.329
Taxes relating to cash flow hedges	17	15.988.993	1.314.718	(3.712.888)	(3.388.272)
Other comprehensive (loss)/income		(65.809.154)	(3.484.694)	13.032.086	12.405.716
Total comprehensive income		568.108.809	358.165.201	477.134.744	273.457.877

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

FORD OTOMOTIV SANAYİ A.Ş.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE INTERIM PERIODS ENDED 30 JUNE 2017 AND 2016**

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

				Other comprehensive income to be reclassified in profit or loss		Other comprehensive income not to 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	Total 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	-	-	-	-	-	-	-	-	464.102.658	464.102.658
Other comprehensive income/(loss)	-	-	-	961.698	14.851.554	(2.781.166)	-	-	-	13.032.086
Total comprehensive income	-	-	-	961.698	14.851.554	(2.781.166)	-	-	464.102.658	477.134.744
Transfers	-	-	-	-	-	-	33.336.450	808.574.224	(841.910.674)	-
Dividends paid (Note 17)	-	-	-	-	-	-	-	(350.910.000)	-	(350.910.000)
Balances at June 30, 2016	350.910.000	27.920.283	8.252	12.027.998	(139.556.297)	(4.433.681)	471.747.252	2.003.353.627	464.102.658	3.186.080.092
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	-	-	-	-	-	-	-	-	633.917.963	633.917.963
Other comprehensive income/(loss)	-	-	-	(3.018.664)	(63.955.972)	1.165.482	-	-	-	(65.809.154)
Total comprehensive income	-	-	-	(3.018.664)	(63.955.972)	1.165.482	-	-	633.917.963	568.108.809
Transfers	-	-	-	-	-	-	38.249.190	917.058.469	(955.307.659)	-
Dividends paid (Note 17)	-	-	-	-	-	-	-	(400.037.400)	-	(400.037.400)
Balances at June 30, 2017	350.910.000	27.920.283	8.252	13.871.253	(400.144.899)	(12.853.370)	322.456.054	2.395.605.184	633.917.963	3.331.690.720

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORGINALLY ISSUED IN TURKISH**

FORD OTOMOTIV SANAYI A.Ş.

**STATEMENTS OF CASH FLOW
FOR THE INTERIM PERIODS ENDED 30 JUNE 2017 AND 2016**

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

		Current period Reviewed 30 June 2017	Previous period Reviewed 30 June 2016
	Notes		
Cash flows generated from/(used in) operating activities:		765.931.438	129.270.675
Net profit for the period		633.917.963	464.102.658
Adjustments to reconcile profit or loss:		425.547.460	379.320.430
Adjustments for depreciation and amortisation expense	10,11	235.930.687	223.376.315
Adjustments for impairment loss of inventories	9	(2.245)	2.137.726
Adjustments for provisions related with employee benefits		17.162.479	4.455.185
Adjustments for lawsuit and/or penalty provisions	13	6.143.442	3.408.014
Adjustments for warranty provisions	13	59.400.551	60.464.046
Adjustments for other provisions		(1.888.751)	9.756.535
Adjustments for dividend income	29	(351.498)	(421.798)
Adjustments for interest income	22	(28.468.935)	(10.699.018)
Adjustments for interest expense	23	16.960.225	21.327.141
Adjustments for tax expenses	24	(3.599.327)	12.161.631
Adjustments for unearned financing income	21	(54.702.702)	(49.458.159)
Adjustments for deferred financing expense	21	76.769.697	65.087.212
Adjustments for gain/(loss) on sales of property, plant and equipment	29	1.466.826	1.153.331
Other adjustments for which cash effects are investing or financing cash flow		100.727.011	36.572.269
Changes in working capital		(204.579.706)	(622.047.774)
(Increase)/decrease in trade receivable		(23.106.106)	(111.707.846)
(Increase)/decrease in inventories		(207.581.918)	(335.584.985)
(Increase)/decrease in prepaid expenses		(35.942.326)	(94.249.332)
Increase/(decrease) in trade payable		154.074.331	(143.621.540)
(Increase)/decrease in other assets		(96.950.489)	38.235.479
Increase/(decrease) in other payables		4.926.802	24.880.450
Cash flows generated from/(used in) operations		854.885.717	221.375.314
Interest paid		(73.613.028)	(69.147.570)
Interest received		49.049.260	50.020.352
Payments related with provisions for employee benefits	15	(5.576.183)	(7.228.413)
Payments related with other provisions		(48.444.549)	(56.037.322)
Taxes paid		(10.369.779)	(9.711.686)
Cash flows used in investing activities		(368.795.649)	(247.825.594)
Proceeds from sales of property, plant and equipment		645.013	4.347.693
Purchase of property, plant and equipment		(173.705.081)	(204.998.661)
Purchase of intangible assets		(88.041.976)	(58.214.095)
Cash advances given		(108.045.103)	10.617.671
Dividends received		351.498	421.798
Cash flows provided by financing activities		150.762.767	(69.145.808)
Proceeds from borrowings		1.667.412.961	1.185.941.375
Repayment of borrowings		(1.124.312.062)	(891.152.672)
Dividends paid	17	(400.037.400)	(350.910.000)
Interest paid		(20.769.667)	(23.723.529)
Interest received		28.468.935	10.699.018
Net increase/(decrease) in cash and cash equivalents		547.898.556	(187.700.727)
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	1.736.931.123	792.660.550

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

CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM FINANCIAL STATEMENTS ORGINALLY ISSUED IN TURKISH

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO INTERIM FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 30 JUNE 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 Akpınar Mahallesi, Hasan Basri Cad. No: 2 Sancaktepe, İstanbul.

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

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

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

Year	Average		Year End	
	2017	2016	2017	2016
Blue Collar	7.741	7.967	7.995	7.561
White Collar	2.677	2.769	2.658	2.700
Total	10.418	10.736	10.653	10.261

Research and development operations which are also subject to service export is conducted with 1.119 employees in Sancaktepe branch, conducted with 246 employees in R&D centre in Kocaeli plant, and conducted with 86 employees in R&D centre in Eskişehir İnönü plant, totally 1.531 employees as of June 30, 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.

CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM FINANCIAL STATEMENTS ORGINALLY ISSUED IN TURKISH

FORD OTOMOTIV SANAYI A.Ş.

NOTES TO INTERIM FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 30 JUNE 2017

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

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

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.

Going concern

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

Comparatives of prior periods' financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company at June 30, 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 June 30, 2017 have been provided with the comparative financial information, for the period between January 1, 2016 and December 31, 2016.

In order to be consistent with the financial statements of current period, other current assets have been decreased by TL 1.757.145, the same amount have been reclassified under current tax assets accordingly.

2.2 Amendments and interpretations in the standarts

The new standards, amendments and interpretations

The Company has applied the new and revised standards and interpretations issued by the KGK as of January 1, 2017 and related to its own activity.

- (a) The new standards, amendments and interpretations which are effective as at 30 June 2017 are as follows:
- 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.

**CONVENIENCE TRANSLATION INTO ENGLISH OF INTERIM
FINANCIAL STATEMENTS ORGINALLY ISSUED IN TURKISH**

FORD OTOMOTIV SANAYI A.Ş.

**NOTES TO INTERIM FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD ENDED 30 JUNE 2017**

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

- Annual improvements 2014-2016; 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.
- (b) Standards, amendments and interpretations effective after 1 July 2017
 - Amendments to IFRS 2, “Share based payments” on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
 - 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.
 - 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 TASB 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 TASB 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 TASB 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 TASB 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.

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

- Amendments to IFRS 4, “Insurance contracts” regarding the implementation of IFRS 9, ‘Financial instruments’, effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- Amendment to IAS 40, “Investment property” relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, “First-time adoption of IFRS”, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
 - IAS 28, “Investments in associates and joint ventures” regarding measuring an associate or joint venture at fair value effective 1 January 2018.
- IFRS 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.
- IFRS 17 "Insurance Contracts" is effective for annual reporting periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which allows a wide range of applications. TFRS 17 will change the basis of insurance contracts and the accounting of all entities that issue investment contracts with voluntary participation features.

The Company will evaluate the effects of the above amendments on its operations and will apply them from the effective date.

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

2.3 Summary of significant accounting policies

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

Cash and cash equivalents

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

Trade receivables and allowance for trade receivables

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

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

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

If the impairment amount decreases due to an event occurring after the write-down, the release of the provision is credited to operating income in the current period. The Company collects receivables arising from domestic vehicles and spare parts sales through the “Direct Debit System” (DDS). Within this system which is also named as Direct Collection System; the contracted banks warrant the collection of the receivables within the limits granted to the dealers. Trade receivables are transferred by the contracted banks to the Company’s bank accounts at the due dates (Notes 7 and 26).

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

Inventories

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

Trade payables

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

Property, plant and equipment

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

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

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

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

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

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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 year
Capitalized improvement expenses	Project lifetime
Other intangible assets	5 year

Impairment of long-lived assets

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

Financial assets

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.

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

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

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

Share premium

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

Share capital and dividends

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

Taxes on income

Taxes include current period income taxes and deferred taxes.

Current period income tax

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

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.

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

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

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

Current and deferred tax

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

Revenue recognition

Goods & services sales

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

For domestic vehicle and spare parts sales, significant risk and rewards are transferred to the buyer when goods are delivered and received by the buyer or when the legal title is passed to the buyer. But if the Company makes a sales agreement with buyback commitment, which shall most likely be applied, the sales made in this scope are not recognized as revenue and monitored under “Other Non-Current Liabilities” (Note 31). Sales, which are subject to buyback commitment, are evaluated as operating lease and monitored as deferred income through allocating the difference between the price paid by the customers and their buyback price to leasing period. (Note 30). 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 (Notes 18 and 21).

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

Dividend and interest income

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

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

Foreign currency transactions and balances

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the Central Bank of Turkey (“TCB”) exchange rates prevailing at the statement of the financial position dates. Foreign currency exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized 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
30 June 2017	3,5071	4,0030	4,5413
31 December 2016	3,5192	3,7099	4,3189
30 June 2016	2,8936	3,2044	3,8690

Financial instruments and financial risk management

Credit risk

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

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

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.

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

Price risk

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

Liquidity risk

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

Interest rate risk

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

Funding risk

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

Foreign exchange risk

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

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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.

	30 June 2017	31 December 2016
Net financial debt	1.838.971.274	1.663.096.956
Tangible equity	2.729.647.045	2.611.055.873
Net financial debt/tangible equity ratio	0,67	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.

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

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.

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.

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

Borrowings and borrowing costs

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

Provision for employee benefits

a) Defined benefit plan

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

b) Defined contribution plan

The Company 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.

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

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).

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.

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

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

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).

Earnings per share

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

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

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

Reporting of cash flows

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

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

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

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

Contingent assets and liabilities

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

Subsequent events

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

Offsetting

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

Government grants and incentives

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

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

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

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 June 30, 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 June 30, 2017 and December 31, 2016, there is no impairment determined related to development costs in progress (Note 11).

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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 2,24% (December 31, 2016: 1,77%) and the weighted average interest rate for the TL time deposits is 14,24%, (December 31, 2016: 10,94%).

	30 June 2017	31 December 2016
Banks - foreign currency time deposits	979.235.904	751.600.036
Banks - TL time deposits	705.968.496	405.969.357
Banks - TL demand deposits	50.994.532	30.805.170
Banks - foreign currency demand deposits	732.191	658.004
	1.736.931.123	1.189.032.567

NOTE 5 - FINANCIAL ASSETS

	30 June 2017		31 December 2016	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Available-for-sale financial assets:				
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0,59	15.578.389	0,59	18.755.930
		15.578.389		18.755.930

(*) The Company's shareholding in Otokar was stated at market value at June 30, 2017 and December 31, 2016 which is assumed to approximate its fair value.

NOTE 6 - FINANCIAL LIABILITIES

Short-term borrowings:

	30 June 2017		31 December 2016	
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	0,74	880.784.760	0,92	630.803.881
- USD	2,17	140.284.000	1,96	140.768.000
- TL	-	4.444.585	-	-
		1.025.513.345		771.571.881

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

Short-term portion of long-term borrowings:

	30 June 2017		31 December 2016	
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	1,80	617.565.460	1,50	576.702.976
		617.565.460		576.702.976
Total short-term borrowings		1.643.078.805		1.348.274.857

Long-term borrowings:

	30 June 2017		31 December 2016	
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	1,65	1.932.823.592	1,57	1.503.854.666
		1.932.823.592		1.503.854.666

The payment schedules of long-term bank borrowings as of June 30, 2017 and December 31, 2016 are as follows:

Payment period	30 June 2017 Total TL	31 December 2016 Total TL
2018	326.719.901	578.549.923
2019	484.067.957	444.440.751
2020	431.835.760	274.403.368
2021	324.443.624	176.769.323
2022	165.606.350	29.691.301
2023	200.150.000	-
	1.932.823.592	1.503.854.666

The letters of bank guarantee given to financial institutions in connection with borrowings amount to TL 996.156.196 (December 31, 2016 - TL 1.188.529.373) (Note 13).

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES

	30 June 2017	31 December 2016
Short term trade receivables:		
Trade receivables	793.027.020	802.670.373
Doubtful receivables	4.533.456	4.533.456
Less: Unearned credit finance income	(10.344.019)	(7.899.304)
	787.216.457	799.304.525
Less: Provision for doubtful receivables	(4.533.456)	(4.533.456)
	782.683.001	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 1,24% 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.

	30 June 2017	31 December 2016
Long term trade receivables:		
Deposits and guarantees given	1.740.717	1.464.369
	1.740.717	1.464.369

	30 June 2017	31 December 2016
Trade payables:		
Trade payables	2.160.645.832	1.832.581.984
Less: Unearned credit finance expense	(14.761.627)	(9.422.196)
	2.145.884.205	1.823.159.788

The average turnover of trade payables is 60 days (December 31, 2016: 60 days) and discounted by 1,24% monthly effective interest rate (December 31, 2016: 0,96%).

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

The maximum exposure of the Company to credit risk as of June 30, 2017 and December 31, 2016 is as follows:

30 June 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)	1.394.709.874	782.683.001	-	1.838.084	1.736.931.123
- The maximum of credit risk covered by guarantees	160.000.000	780.780.642	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	1.376.361.150	779.941.050	-	1.838.084	1.736.931.123
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	18.348.724	2.741.951	-	-	-
- Amount of risk covered by guarantees	-	839.592	-	-	-
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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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2016	<u>Trade receivables</u>		<u>Other receivables</u>		<u>Deposit in bank</u>
	<u>Related party</u>	<u>Other</u>	<u>Related party</u>	<u>Other</u>	
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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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

30 June 2017	Trade receivables	
	Related party	Other
1-30 days overdue	5.144.038	823.188
1-3 months overdue	4.664.959	350.918
3-12 months overdue	7.536.072	1.459.819
1-5 years overdue	1.003.655	108.026
	18.348.724	2.741.951

Risk covered by guarantees	-	839.592
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The Company's overdue related party receivables are related to the long term engineering service bills and spare parts exports to Ford Motor Company.

31 December 2016	Trade receivables	
	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
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NOTE 8 - OTHER RECEIVABLES AND PAYABLES

	30 June 2017	31 December 2016
Other receivables		
Other miscellaneous receivables	1.838.084	503.875
	1.838.084	503.875

	30 June 2017	31 December 2016
Other payables		
Taxes and funds payable	23.112.716	43.608.973
Rent accruals	21.436.569	17.465.069
Marketing and other expense accruals	14.031.502	-
Donations and grants payable	12.168.521	-
Sales premium accruals	7.424.586	8.712.260
Other	7.701.173	6.342.613
	85.875.067	76.128.915

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NOTE 9 - INVENTORIES

	30 June 2017	31 December 2016
Raw materials	325.629.481	304.205.557
Finished goods	341.809.175	289.056.322
Goods in transit	210.964.475	200.054.591
Vehicle spare parts	144.224.972	127.888.336
Import vehicles	193.806.294	89.740.363
Spare parts	26.594.454	19.626.376
Other	18.099.573	29.086.771
	1.261.128.424	1.059.658.316
Less: Provision for impairment of finished goods and vehicle spare parts	(5.229.709)	(5.231.954)
	1.255.898.715	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
1 January	5.231.954	4.329.423
Change within the period	(2.245)	2.137.726
30 June	5.229.709	6.467.149

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).

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

31 December 2016	Land	Land improvements	Buildings	Machinery & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Construction in progress	Total
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 30 June 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	-	4.254.175	5.125.127	38.620.916	74.728.360	10.357.032	6.875.049	43.665.674	183.626.333
Transfers	-	42.444	4.855.722	7.353.206	3.634.437	-	5.133.396	(21.019.205)	-
Disposals	-	-	-	(3.232.891)	-	(64.988)	(2.200.928)	-	(5.498.807)
Depreciation charge	-	(2.900.781)	(15.841.753)	(70.985.188)	(86.266.500)	(16.456.824)	(4.917.902)	-	(197.368.948)
Disposals from accumulated depreciation	-	-	-	2.670.739	-	49.650	666.579	-	3.386.968
Closing net book value	12.269.499	85.400.205	561.903.498	1.235.834.122	1.035.924.003	156.734.510	82.497.842	116.326.648	3.286.890.327
30 June 2017									
Cost	12.269.499	159.613.344	948.576.218	2.449.216.035	2.175.563.631	393.015.155	100.957.221	116.326.648	6.355.537.751
Accumulated depreciation	-	(74.213.139)	(386.672.720)	(1.213.381.913)	(1.139.639.628)	(236.280.645)	(18.459.379)	-	(3.068.647.424)
Net book value	12.269.499	85.400.205	561.903.498	1.235.834.122	1.035.924.003	156.734.510	82.497.842	116.326.648	3.286.890.327

The Company compared the borrowing cost 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 3.809.442 (December 31, 2016: TL 5.882.283) has been recognized under property, plant and equipment according to the cumulative approach within the context of TMS 23 as of June 30, 2017.

There is no collateral, pledge or mortgage on tangible assets as of June 30, 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 80.997.843 (December 31, 2016: TL 74.886.033).

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

31 December 2015	Land	Land improvements	Buildings	Machinery & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Construction in progress	Total
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 30 June 2016									
Opening net book value	12.269.499	83.833.964	566.523.504	1.275.192.264	1.048.375.579	151.675.665	67.382.981	45.464.847	3.250.718.303
Additions	-	2.100.421	3.691.979	42.760.126	95.895.703	21.314.484	30.036.887	33.873.410	229.673.010
Transfers	-	1.944.878	7.608.969	4.430.482	3.797.868	5.040	-	(17.787.237)	-
Disposals	-	(515.424)	(208.086)	(2.918.575)	(420.431)	(641.195)	(5.368.167)	-	(84.957.911)
Depreciation charge	-	(2.787.419)	(15.855.658)	(68.900.562)	(77.657.176)	(15.135.812)	(4.179.611)	-	(184.516.238)
Disposals from accumulated depreciation	-	301.253	30.414	2.898.847	420.431	516.132	403.777	-	4.570.854
Closing net book value	12.269.499	84.877.673	561.791.122	1.253.462.582	1.070.411.974	157.734.314	88.275.867	61.551.020	3.290.374.051
30 June 2016									
Cost	12.269.499	153.979.351	916.891.650	2.331.905.321	2.040.352.096	365.521.094	98.894.406	61.551.020	5.981.364.437
Accumulated depreciation	-	(69.101.678)	(355.100.528)	(1.078.442.739)	(969.940.122)	(207.786.780)	(10.618.539)	-	(2.690.990.386)
Net book value	12.269.499	84.877.673	561.791.122	1.253.462.582	1.070.411.974	157.734.314	88.275.867	61.551.020	3.290.374.051

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NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The allocation of depreciation expense as of June 30, 2017 and 2016 is as follows:

	30 June 2017	30 June 2016
Cost of production (Note 18)	183.444.779	172.106.313
Research and development expenses (Note 19)	7.972.512	6.959.950
General administrative expenses (Note 19)	3.950.358	3.493.411
Marketing expenses (Note 19)	1.460.361	1.308.658
Associated with construction in progress	540.938	647.906
	197.368.948	184.516.238

NOTE 11 - INTANGIBLE ASSETS

31 December 2016	Rights	Development cost	Development cost 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 30 June 2017					
Opening net book value	3.856.480	418.592.184	129.106.756	1.008.018	552.563.438
Additions	5.178.877	-	82.155.978	707.121	88.041.976
Amortisation charge	(4.217.577)	(34.018.864)	-	(325.298)	(38.561.739)
Closing net book value	4.817.780	384.573.320	211.262.734	1.389.841	602.043.675
30 June 2017					
Cost	45.532.960	653.879.256	211.262.734	7.190.822	917.865.772
Accumulated amortisation	(40.715.180)	(269.305.936)	-	(5.800.981)	(315.822.097)
Net book value	4.817.780	384.573.320	211.262.734	1.389.841	602.043.675

There is no carrying amounts of fully depreciated intangible assets as of June 30, 2017.

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

NOTE 11 - INTANGIBLE ASSETS (Continued)

As of 30 June 2017, there is no capitalized interest costs and foreign exchange differences in accordance with TMS 23 difference (December 31, 2016: None).

31 December 2015	Rights	Development cost	Development cost in progress	Other	Total
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 30 June 2017

Opening net book value	1.995.446	483.422.750	52.668.735	1.632.871	539.719.802
Additions	1.964.830	56.225.975	-	23.290	58.214.095
Amortisation charge	(3.844.176)	(34.691.522)	-	(324.379)	(38.860.077)
Closing net book value	116.100	504.957.203	52.668.735	1.331.782	559.073.820

30 June 2016

Cost	33.066.030	705.641.074	52.668.735	6.483.701	797.859.540
Accumulated amortisation	(32.949.930)	(200.683.871)	-	(5.151.919)	(238.785.720)
Net book value	116.100	504.957.203	52.668.735	1.331.782	559.073.820

The allocation of amortisation charges relating to June 30, 2017 and 2016 is as follows:

	30 June 2017	30 June 2016
Cost of production (Note 18)	34.824.382	35.410.975
General administrative expenses (Note 19)	2.104.224	2.170.299
Research and development expenses (Note 19)	1.388.511	1.183.369
Marketing expenses (Note 19)	182.506	32.096
Associated with construction in progress	62.116	63.338
	38.561.739	38.860.077

NOTE 12 - PREPAID EXPENSES

Short-term prepaid expenses:	30 June 2017	31 December 2016
Advances given for inventories	79.810.883	53.090.751
Other prepaid expenses	15.142.753	5.920.559
	94.953.636	59.011.310

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

NOTE 12 - PREPAID EXPENSES (Continued)

Long term prepaid expenses:	30 June 2017	31 December 2016
Advances given for investments (*)	286.378.046	178.332.944
	286.378.046	178.332.944

(*) Advances given for investments are related to the Company's new vehicle investments. TL 208.044.838 (December 31, 2016: TL 133.801.174) is given to domestic vendors as mould advances and TL 78.333.208 (December 31, 2016: TL 44.531.770) is given for the new project 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

	30 June 2017	31 December 2016
Warranty expense provision	96.152.098	93.567.753
Provisions for sales premium (*)	40.784.116	42.672.867
	136.936.214	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

	30 June 2017	31 December 2016
Warranty expense provision	71.489.777	60.819.963
Provisions for lawsuit	43.140.709	39.295.423
	114.630.486	100.115.386

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

	2017	2016
1 January	39.295.423	39.394.943
Paid during the period	(2.298.156)	(5.005.321)
Additions during the period	6.143.442	3.408.014
30 June	43.140.709	37.797.636

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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
1 January	154.387.716	101.614.941
Paid during the period	(46.146.392)	(51.032.001)
Additions during the period (Note 19)	59.400.551	60.464.046
30 June	167.641.875	111.046.986

Letters of guarantee and letters of credit	30 June 2017	31 December 2016
Letters of guarantee given to financial institutions due to bank loans	996.156.196	1.188.529.373
Letters of guarantee given to customs	44.621.936	41.696.155
Letters of guarantees given to other parties	13.829.644	11.050.963
	1.054.607.776	1.241.276.491

Letters of guarantee given	30 June 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
Euro	223.866.393	896.137.173	292.481.777	1.085.078.144
USD	40.013.000	140.329.592	40.013.000	140.813.750
TL	18.141.011	18.141.011	15.384.597	15.384.597
	1.054.607.776		1.241.276.491	

The allocation of collaterals, pledges and mortgages as of June 30, 2017 and December 31, 2016 as follows:

Collaterals, pledges and mortgages given by the Company	30 June 2017	31 December 2016
A. Total amount of collaterals/pledges/mortgages given for its own Legal entity	1.054.607.776	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	-	-
	1.054.607.776	1.241.276.491

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

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

As of June 30, 2017 and December 31, 2016, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

Letters of guarantee received

	30 June 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
TL	112.266.282	112.266.282	73.006.333	73.006.333
Euro	15.554.578	62.264.976	7.168.965	26.596.145
USD	1.220.500	4.280.416	395.912	1.393.295
	178.811.674		100.995.773	

Other

The long-term bank borrowing agreements related to the investments require the Company to comply with certain financial ratios. Such financial ratios are met by the Company as of June 30, 2017 and December 31, 2016.

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 Euro 35,000,000 used in January 2017 an amount of Euro 35,000,000 export is required to be ensured and
 - With 8 months term credit amounting to USD 40,000,000 used in April 2017 an amount of USD 40,000,000 and
 - With 8 months term credit amounting to Euro 35,000,000 used in May 2017 an amount of Euro 35,000,000 export is required to be ensured by the Company.
 - With 8 months term credit amounting to Euro 35,000,000 used in June 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.

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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	30 June 2017	31 December 2016
Within 1 year	5.438.277	8.844.353
Between 1 year to 5 years	5.597.495	5.747.250
	11.035.772	14.591.603

NOTE 15 - EMPLOYEE BENEFITS

Liabilities for employee benefit obligations:

	30 June 2017	31 December 2016
Salaries and social charges payable	58.354.260	40.181.192
Social security premiums payable	25.033.429	36.991.060
Withholding income tax payable	9.731.277	22.989.499
Other	2.042.173	2.137.068
	95.161.139	102.298.819

Provision for employee benefits:

	30 June 2017	31 December 2016
Provision for employment termination benefits	119.074.518	110.024.703
Provision for unused vacation pay liability	28.518.172	20.300.863
	147.592.690	130.325.566

Provision for employment termination benefits:

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

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

The amount payable consists of one month's salary limited to a maximum of TL 4.732,48 for each year of service as of July 1, 2017 (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.

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

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

	30 June 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 4.732,48 which was effective as of July 1, 2017 (July 1 - December 31, 2016 - TL 4.297,21) has been used in the calculations.

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

	2017	2016
1 January	110.024.703	87.579.319
Interest cost	5.924.830	4.532.230
Current year service cost	10.158.020	6.222.366
Paid during the period	(5.576.183)	(7.228.413)
Remeasurment (gains) / losses	(1.456.852)	3.476.458
30 June	119.074.518	94.581.960

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of June 30, 2017 is below:

Sensitivity level	Net discount rate		Turover rate related to the probability of retirement	
	0,5% decrease	0,5% increase	0,5% decrease	0,5% increase
Rate (%)	(4,0)	(5,0)	95,14	96,14
Change in provision for employee benefits	6.098.732	(5.620.997)	(4.166.328)	4.582.436

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

NOTE 16 - OTHER CURRENT ASSETS

	30 June 2017	31 December 2016
VAT to be deductible (*)	298.911.098	196.050.442
Prepaid taxes and withholding	4.308.834	4.362.933
Other	5.922.320	13.112.597
	309.142.252	213.525.972

(*) The VAT to be deducted from the deduction includes the export VAT invoice for May and June 2017. VAT invoice amounting to TL 154 million for May 2017 was collected in July 2017.

NOTE 17 - EQUITY

The composition of the Company's paid-in capital as of June 30, 2017 and December 31, 2016 is as follows:

Shareholders	Share Group	30 June 2017	Shareholders percentage (%)	31 December 2016	Shareholders 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 June 30, 2017 (December 31, 2016 – TL 284.206.864).

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

NOTE 17 - EQUITY (Continued)

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

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

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

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

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

In accordance with the 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 June 30, 2017 and December 31, 2016 are as follows:

	30 June 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	13.871.253	16.889.917
Losses on cash flow hedges	(400.144.899)	(336.188.927)
Losses on remeasurements of defined benefit plans	(12.853.370)	(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	633.917.963	955.307.659
Total equity	3.331.690.720	3.163.619.311

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

(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 June 30, 2017 and December 31, 2016 are as follows:

30 June 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 June 30, 2017 and December 31, 2016. As of June 30, 2017, fair value change (negative) amounting to TL (3,018,664) 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
1 January	(333.317.862)	(144.994.066)
Losses (gains) on remeasurement and/or reclassification of available-for sale financial assets	(3.018.664)	961.698
Gains (losses) on remeasurements of defined benefit plans	1.165.482	(2.781.166)
Losses (gains) on cash flow hedges	(63.955.972)	14.851.554
30 June	(399.127.016)	(131.961.980)

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

NOTE 18 - REVENUE AND COST OF SALES

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Export sales	8.675.522.244	4.413.331.376	6.056.817.943	2.962.942.404
Domestic sales	3.262.909.900	2.017.535.741	3.105.548.055	1.841.992.861
Other sales	55.293.743	29.961.757	36.343.018	21.803.458
Less: Discounts	(341.117.924)	(203.098.230)	(398.872.097)	(212.317.688)
	11.652.607.963	6.257.730.644	8.799.836.919	4.614.421.035

Units of vehicle sales:

	1 January - 30 June 2017			1 April - 30 June 2017		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	2.779	79.249	82.028	1.577	39.587	41.164
Transit	11.234	53.926	65.160	6.331	27.539	33.870
Transit Courier	15.777	18.431	34.208	9.981	9.089	19.070
Passenger vehicles	15.185	376	15.561	10.624	152	10.776
Cargo	1.991	378	2.369	1.212	214	1.426
Ranger	902	14	916	376	-	376
New Transit Connect	791	14	805	364	8	372
	48.659	152.388	201.047	30.465	76.589	107.054

	1 January - 30 June 2016			1 April - 30 June 2016		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	3.186	65.607	68.793	1.909	31.302	33.211
Transit	12.345	51.792	64.137	7.032	23.904	30.936
Transit Courier	16.453	17.661	34.114	9.680	8.578	18.258
Passenger vehicles	18.263	221	18.484	11.004	85	11.089
Cargo	2.552	293	2.845	1.636	158	1.794
New Transit Connect	1.470	2	1.472	938	2	940
Ranger	733	7	740	707	7	714
	55.002	135.583	190.585	32.906	64.036	96.942

Summaries of cost of production as of June 30, 2017 and 2016 are as follows:

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Raw material cost	(8.493.768.971)	(4.435.826.750)	(6.117.789.994)	(3.080.335.000)
Production overhead costs	(551.123.351)	(289.133.865)	(516.514.254)	(265.436.791)
Depreciation and amortization expenses (Notes 10 and 11)	(218.269.161)	(109.033.770)	(207.517.288)	(104.937.243)
Changes in finished goods	52.755.098	(5.971.532)	208.975.157	45.674.278
Total production cost	(9.210.406.385)	(4.839.965.917)	(6.632.846.379)	(3.405.034.756)
Cost of trade goods sold	(1.270.296.016)	(798.169.061)	(1.173.112.567)	(680.764.758)
Total cost of sales	(10.480.702.401)	(5.638.134.978)	(7.805.958.946)	(4.085.799.514)

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

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

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Marketing expenses:				
Warranty expenses (Note 13)	(59.400.551)	(36.729.906)	(60.464.046)	(38.765.256)
Advertising expenses	(52.672.835)	(26.573.750)	(46.041.763)	(25.743.109)
Personnel expenses	(40.127.107)	(19.678.909)	(34.878.463)	(18.348.598)
Vehicle transportation expenses	(24.355.635)	(15.293.824)	(24.286.669)	(7.818.097)
Spare parts transportation and packaging expenses	(11.424.302)	(6.701.207)	(8.802.639)	(4.887.850)
Dealer and service development expenses	(8.702.579)	(4.937.049)	(8.301.750)	(5.638.099)
Export expenses	(7.359.816)	(3.614.873)	(5.958.265)	(2.729.315)
Depreciation and amortization expense (Notes 10 and 11)	(1.642.867)	(836.932)	(1.340.754)	(680.667)
Other	(26.900.049)	(12.636.023)	(16.311.708)	(10.966.851)
	(232.585.741)	(127.002.473)	(206.386.057)	(115.577.842)
	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
General administrative expenses:				
Personnel expenses	(50.919.549)	(25.714.086)	(44.537.279)	(22.430.969)
Legal, consulting and auditing expenses	(15.042.611)	(9.462.122)	(6.689.913)	(5.868.337)
Grants and donations	(12.594.724)	(7.432.060)	(10.029.644)	(6.105.681)
Organization expenses	(6.873.699)	(5.907.390)	(5.178.770)	(4.459.553)
Depreciation and amortization expense (Notes 10 and 11)	(6.054.582)	(3.024.359)	(5.663.710)	(2.850.165)
Travel expenses	(2.899.507)	(1.904.923)	(4.492.785)	(2.094.661)
Duties, taxes and levies	(2.279.121)	(835.122)	(2.966.574)	(1.769.191)
New project administrative expenses	(1.907.259)	(952.322)	(4.491.397)	(2.612.693)
Repair, maintenance and energy expenses	(1.754.006)	(821.960)	(1.476.347)	(780.555)
Other	(13.569.901)	(5.286.441)	(15.899.781)	(8.860.024)
	(113.894.959)	(61.340.785)	(101.426.200)	(57.831.829)
	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Research and development expenses:				
Personnel expenses	(77.119.509)	(36.068.122)	(83.348.819)	(41.285.255)
Project costs	(36.126.448)	(24.623.709)	(44.601.748)	(23.775.321)
Mechanization expense	(21.960.847)	(10.103.009)	(18.885.989)	(9.785.875)
Depreciation and amortization expense (Notes 10 and 11)	(9.361.023)	(4.727.665)	(8.143.319)	(4.110.044)
Other	(2.981.647)	3.055.645	(1.265.110)	1.599.873
	(147.549.474)	(72.466.860)	(156.244.985)	(77.356.622)

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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 June 30, 2017 and 2016 is as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Raw material cost	(8.493.768.971)	(4.435.826.750)	(6.117.789.994)	(3.080.335.000)
Cost of trade goods sold	(1.270.296.016)	(798.169.061)	(1.173.112.567)	(680.764.758)
Personnel expenses	(461.929.622)	(235.161.178)	(437.831.119)	(223.652.646)
Other operational expenses	(308.805.536)	(170.760.044)	(286.144.897)	(161.060.594)
Other overhead costs	(257.359.894)	(135.433.804)	(241.447.697)	(123.848.968)
Financial expenses	(254.489.343)	(121.582.405)	(206.214.592)	(141.839.978)
Depreciation and amortization expenses	(235.327.633)	(117.622.728)	(222.665.071)	(112.578.119)
Other operational expenses	(131.743.292)	(51.341.128)	(96.166.409)	(42.298.522)
Expenses from investing activities	(1.479.005)	(1.479.005)	(1.153.331)	3.227
Changes in finished goods	52.755.098	(5.971.532)	208.975.157	45.674.278
Total expenses	(11.362.444.214)	(6.073.347.635)	(8.573.550.520)	(4.520.701.080)

NOTE 21 - OTHER OPERATING INCOME/EXPENSES

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Other operating income				
Foreign exchange gains related to trade receivables and payables	70.238.106	17.611.372	9.527.329	4.114.632
Credit finance income	54.702.702	31.815.878	49.458.159	25.188.145
Price difference and claim recovery	8.552.049	7.677.153	6.643.224	5.465.958
License fees income	6.217.408	3.623.732	4.389.755	2.140.794
Rent income	2.826.876	1.394.934	3.191.245	1.296.777
Commission income	2.541.339	1.632.486	2.607.105	1.616.990
Adjustments of prior period corporate tax	975.156	975.156	2.315.791	2.315.791
Other	15.897.194	5.674.392	9.067.884	6.122.401
	161.950.830	70.405.103	87.200.492	48.261.488
Other operating expenses				
Credit finance charge	(76.769.697)	(44.401.053)	(65.087.212)	(32.598.355)
Foreign exchange losses related to trade receivables and payables	(52.677.359)	(6.437.818)	(27.540.595)	(8.078.011)
Other	(2.296.236)	(502.257)	(3.538.602)	(1.622.156)
	(131.743.292)	(51.341.128)	(96.166.409)	(42.298.522)

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

NOTE 22 - FINANCIAL INCOME

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Foreign exchange gains	149.371.446	79.667.847	151.656.582	118.696.161
Interest income	28.468.935	15.776.571	10.699.018	5.178.143
	177.840.381	95.444.418	162.355.600	123.874.304

NOTE 23 - FINANCIAL EXPENSES

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Foreign exchange losses	(223.942.876)	(105.947.891)	(177.219.548)	(126.945.513)
Interest expenses	(16.960.225)	(5.993.099)	(21.327.141)	(10.468.757)
Other	(13.586.242)	(9.641.415)	(7.667.903)	(4.425.708)
	(254.489.343)	(121.582.405)	(206.214.592)	(141.839.978)

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.

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

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

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

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

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

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 June 30, 2017, the Company used R&D deduction of TL 206.699.276 (June 30, 2016: TL 174.686.626) 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 (June 30, 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 2.341.585.118 (June 30, 2016: TL 2.079.711.870) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TL 76.061.630 (June 30, 2016: TL 53.264.447) in the current year and this amount has been deducted from the total deferred tax asset.

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

The Company's net tax position as of June 30, 2017 and December 31, 2016 are as follows:

	30 June 2017	31 December 2016
Current year corporate tax expense	(9.642.977)	(20.413.616)
Prepaid tax and withholding	12.126.924	22.170.761
Current years' profit tax liability	2.483.947	1.757.145

The taxation on income for the periods ended June 30, 2017 and 2016 are as follows;

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Current year corporate tax expense	(9.642.977)	(5.497.919)	(15.155.143)	(8.948.453)
Current year tax effect of cash flow hedge	(15.988.993)	(1.314.718)	3.712.888	3.388.272
Other deferred tax	29.231.297	18.230.001	(719.376)	334.797
Deferred tax income	13.242.304	16.915.283	2.993.512	3.723.069
Continuing operations tax income / (expense)	3.599.327	11.417.364	(12.161.631)	(5.225.384)

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at June 30, 2017 and 2016 and current tax ratio based on income before tax is as follows:

	30 June 2017	30 June 2016
Income before tax:	630.318.636	476.264.289
Effective tax rate	%20	%20
Current year tax expense	(126.063.727)	(95.252.858)
R&D deduction	41.339.855	34.937.325
Investment incentive exemption	86.219.328	57.168.011
Other	2.103.871	(9.014.109)
	3.599.327	(12.161.631)

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.

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at June 30, 2017 and December 31, 2016 using the current enacted tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Deferred tax assets:				
Investment incentive tax asset	4.019.277.772	3.987.624.184	750.196.699	740.039.001
Expense accruals and other provisions	305.409.202	306.055.022	61.081.840	61.211.004
Employee benefits provision	119.074.518	110.024.703	23.814.905	22.004.941
Warranty expense provision	167.641.875	154.387.716	33.528.375	30.877.543
Inventories	32.124.750	33.381.397	6.424.950	6.676.279
			875.046.769	860.808.768
Deferred tax liabilities:				
Tangibles and intangibles	1.406.368.203	1.430.270.546	(281.273.641)	(286.054.109)
Income accruals and other	41.803.443	92.205.126	(8.360.690)	(18.441.025)
			(289.634.331)	(304.495.134)
Net deferred tax asset			585.412.438	556.313.634

Deferred tax movements are as follows:

	1 January 2017	Charged to Statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	30 June 2017
Deferred tax liabilities:				
Tangible and intangible assets	(286.054.109)	4.780.468	-	(281.273.641)
Income accruals and other	(18.441.025)	9.921.458	158.877	(8.360.690)
Deferred tax assets:				
Investment incentive tax asset	740.039.001	10.157.698	-	750.196.699
Expense accruals and other	61.211.004	(129.164)	-	61.081.840
Provision for employee benefits	22.004.941	2.101.334	(291.370)	23.814.905
Warranty expense provision	30.877.543	2.650.832	-	33.528.375
Inventories	6.676.279	(251.329)	-	6.424.950
Deferred tax asset, net	556.313.634	29.231.297	(132.493)	585.412.438

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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 income/(expense)	Charged to comprehensive income statement as income/(expense)	30 June 2016
Deferred tax liabilities:				
Tangible and intangible assets	(266.800.745)	(19.062.399)	-	(285.863.144)
Income accruals and other	(12.440.198)	3.536.279	(50.616)	(8.954.535)
Deferred tax assets:				
Investment incentive tax asset	718.282.976	3.903.564	-	722.186.540
Expense accruals and other	18.224.017	8.370.197	-	26.594.214
Provision for employee benefits	17.515.863	705.237	695.292	18.916.392
Warranty expense provision	20.322.988	1.886.409	-	22.209.397
Inventories	7.428.029	(58.663)	-	7.369.366
Deferred tax asset, net	502.532.930	(719.376)	644.676	502.458.230

NOTE 25 - EARNINGS PER SHARE

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Net income for the year (TL)	633.917.963	361.649.895	464.102.658	261.052.161
Weighted average number of shares with nominal	35.091.000.000	35.091.000.000	35.091.000.000	35.091.000.000
Earnings per share with nominal value of Kr 1 each	1,81 Kr	1,03 Kr	1,32 Kr	0,74 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.

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

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

The related party balances at June 30, 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

	30 June 2017	31 December 2016
Due from shareholders:		
Ford Motor Company and its subsidiaries	922.333.589	892.539.806
	922.333.589	892.539.806
Due from group companies (*):		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	477.119.322	474.021.168
Other	650.670	1.069.495
	477.769.992	475.090.663
Less: Unearned credit finance income	(5.393.707)	(4.681.752)
	1.394.709.874	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.

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**b) Payables to related parties:****i) Trade payables to related parties**

	30 June 2017	31 December 2016
Due to shareholders:		
Ford Motor Company and its subsidiaries	518.008.349	698.912.624
	518.008.349	698.912.624
Trade payables due to related parties (*):		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	45.801.922	34.059.917
Ram Dış Ticaret A.Ş.	31.555.758	27.150.373
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	7.534.835	6.695.234
Setur Servis Turistik A.Ş.	5.777.904	7.030.662
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3.617.859	2.330.676
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	2.564.543	2.434.071
Ram Sigorta Aracılık Hizmetleri A.Ş.	1.402.127	475.977
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1.383.024	1.370.022
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	445.115	10.958.193
Other	2.635.552	3.298.756
	102.718.639	95.803.881
Less: Unearned credit finance expense	(847.405)	(533.394)
	619.879.583	794.183.111

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

ii) Other payables to related parties

	30 June 2017	31 December 2016
Koç Holding A.Ş.	3.374.800	8.577.780
Yapı ve Kredi Bankası A.Ş.	-	2.843.097
Koç Finansman A.Ş.	-	7.342.294
	3.374.800	18.763.171

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**c) Sales to related parties:**

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Ford Motor Company (*)	8.558.639.194	4.348.448.759	5.987.899.373	2.921.106.158
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	825.672.802	519.841.829	747.138.446	448.440.171
Other	47.407	44.219	1.025.867	990.369
	9.384.359.403	4.868.334.807	6.736.063.686	3.370.536.698
Less: Financial income from credit sales	(15.459.392)	(9.138.406)	(13.670.949)	(7.932.954)
	9.368.900.011	4.859.196.401	6.722.392.737	3.362.603.744

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

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

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

	1 January - 30 June 2017			
	Material	Service	Fixed Assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	9.725.671	129.407.529	88.670	139.221.870
Ram Dış Ticaret A.Ş.	64.183.916	-	-	64.183.916
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	10.392.491	1.656.536	12.049.027
Setur Servis Turistik A.Ş.	-	14.568.593	-	14.568.593
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	9.510.159	3.615.779	13.125.938
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	9.524.950	-	-	9.524.950
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	8.581.440	-	8.581.440
Koç Holding A.Ş. (*)	-	5.882.855	-	5.882.855
Koçtaş Yapı Marketleri Ticaret A.Ş.	5.734.140	-	7.437	5.741.577
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	5.455.159	-	-	5.455.159
Opet Petrolcülük A.Ş.	2.420.315	-	-	2.420.315
Tanı Pazarlama İlet. Hiz. A.Ş.	-	1.018.632	-	1.018.632
Other	30.776	3.150.393	222.695	3.403.864
	97.074.927	182.512.092	5.591.117	285.178.136
Less: Financial expense from credit purchases	(1.790.257)	-	-	(1.790.257)
	95.284.670	182.512.092	5.591.117	283.387.879

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

(**) Contains paid and accrued premium amounts for the interim periods ended June 30, 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 JUNE 30, 2017**

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

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

	1 April - 30 June 2017			Total
	Material	Service	Fixed Assets	
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	5.677.621	69.630.944	54.227	75.362.792
Ram Dış Ticaret A.Ş.	31.239.490	-	-	31.239.490
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	5.662.381	478.215	6.140.596
Setur Servis Turistik A.Ş.	-	9.352.239	-	9.352.239
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	5.389.315	2.603.048	7.992.363
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	4.671.057	-	-	4.671.057
Ram Sigorta Aracılık Hizmetleri A.Ş.(**)	-	4.881.859	-	4.881.859
Koç Holding A.Ş. (*)	-	3.022.855	-	3.022.855
Koçtaş Yapı Marketleri Ticaret A.Ş.	3.077.519	-	-	3.077.519
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3.170.658	-	-	3.170.658
Opet Petrolcülük A.Ş.	1.370.585	-	-	1.370.585
Tanı Pazarlama İlet. Hiz. A.Ş.	-	643.858	-	643.858
Other	30.776	1.933.959	222.695	2.187.430
	49.237.706	100.517.410	3.358.185	153.113.301
Less: Financial expense from credit purchases	(991.531)	-	-	(991.531)
	48.246.175	100.517.410	3.358.185	152.121.770
	1 January - 30 June 2016			Total
	Material	Service	Fixed Assets	
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	5.436.623	108.661.196	65.050	114.162.869
Ram Dış Ticaret A.Ş.	48.689.913	-	-	48.689.913
Setur Servis Turistik A.Ş.	-	14.854.417	-	14.854.417
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	4.734.171	9.355.131	14.089.302
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	10.816.900	1.278.370	12.095.270
Ram Sigorta Aracılık Hizmetleri A.Ş.(*)	-	8.788.999	-	8.788.999
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	7.746.450	-	-	7.746.450
Koç Holding A.Ş. (**)	-	5.594.055	-	5.594.055
Koçtaş Yapı Marketleri Ticaret A.Ş.	4.697.097	-	-	4.697.097
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	4.673.063	-	-	4.673.063
Opet Petrolcülük A.Ş.	1.786.746	-	-	1.786.746
Tanı Pazarlama İlet. Hiz. A.Ş.	-	1.114.872	-	1.114.872
Other	31.325	2.918.418	-	2.949.743
	73.061.217	157.483.028	10.698.551	241.242.796
Less: Financial expense from credit purchases	(1.399.145)	-	-	(1.399.145)
	71.662.072	157.483.028	10.698.551	239.843.651

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

26. İLİŞKİLİ TARAF AÇIKLAMALARI (Devamı)

	1 April - 30 June 2016			
	Material	Service	Fixed Assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	2.495.021	62.687.798	49.290	65.232.109
Ram Dış Ticaret A.Ş.	23.159.228	-	-	23.159.228
Setur Servis Turistik A.Ş.	-	8.889.945	-	8.889.945
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	3.898.156	-	-	3.898.156
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	2.988.781	7.809.558	10.798.339
Ram Sigorta Aracılık Hizmetleri A.Ş.(**)	-	5.503.726	-	5.503.726
Koç Holding A.Ş. (*)	-	2.815.422	-	2.815.422
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2.391.346	-	-	2.391.346
Koçtaş Yapı Marketleri Ticaret A.Ş.	2.442.528	-	-	2.442.528
Opet Petrolcülük A.Ş.	932.159	-	-	932.159
Tanı Pazarlama İlet. Hiz. A.Ş.	-	577.648	-	577.648
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	10.736.111	829.330	11.565.441
Other	11.390	1.596.119	-	1.607.509
	35.329.828	95.795.550	8.688.178	139.813.556
Less: Financial expense from credit purchases	(657.823)	-	-	(657.823)
	34.672.005	95.795.550	8.688.178	139.155.733

Material, vehicle and service purchases from abroad:

	1 January-30 June 2017	1 April-30 June 2017	1 January-30 June 2016	1 April-30 June 2016
Ford Motor Company and its subsidiaries	5.351.336.799	2.884.299.457	3.947.068.378	2.099.475.498

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

	1 January-30 June 2017	1 April-30 June 2017	1 January-30 June 2016	1 April-30 June 2016
	57.183.678	32.874.335	55.299.282	31.865.756

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017**

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

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

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

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
	6.217.408	3.623.732	4.389.755	2.140.794

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

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
	12.449.206	7.300.982	9.530.801	5.718.219

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

Deposits in related banks 30 June 2017 31 December 2016**Yapı ve Kredi Bankası A.Ş.**

- Foreign currency time deposits	283.391.487	251.505.872
- TL demand deposits	101.310.685	-
- Foreign currency demand deposits	28.167.286	17.416.469
- TL time deposits	402.704	238.947
	413.272.162	269.161.288

- ı) Commission income:

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Koç Finansman A.Ş.	1.538.594	993.586	1.857.511	1.208.716
Yapı ve Kredi Bankası A.Ş.	1.002.745	638.899	744.312	408.275
	2.541.339	1.632.485	2.601.823	1.616.991

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

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

i) Commission expense:

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Koç Finansman A.Ş.	29.081.143	21.172.619	38.644.167	28.796.004
Yapı ve Kredi Bankası A.Ş.	12.160.859	8.188.484	8.420.140	6.140.418
	41.242.002	29.361.103	47.064.307	34.936.422

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

j) Interest income:

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Yapı ve Kredi Bankası A.Ş.	6.252.779	3.937.788	2.268.177	580.300

k) Dividend income:

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Otokar Otomotiv ve Savunma Sanayi A.Ş.	351.498	-	421.798	421.798

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 June 30, 2017 was TL 7.859.531 (June 30, 2016: TL 7.533.796).

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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 June 30, 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:

30 June 2017

	TL (Functional currency)	USD	Euro	GBP
1. Trade receivables	966.931.926	11.319.339	231.634.742	-
2. Monetary financials assets (including cash and cash equivalents)	979.968.095	40.108.445	209.662.681	5.297
3. Other	197.291.852	6.325.024	43.744.532	-
4. Current assets (1 + 2 + 3)	2.144.191.873	57.752.808	485.041.955	5.297
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	2.144.191.873	57.752.808	485.041.955	5.297
8. Trade payables	667.350.225	26.859.739	142.949.562	203.320
9. Financial liabilities (*)	1.638.634.220	40.000.000	374.306.825	-
10. Other monetary liabilities	94.509.019	535.495	22.940.434	176.255
11. Short term liabilities (8 + 9 + 10)	2.400.493.464	67.395.234	540.196.821	379.575
12. Financial liabilities (*)	1.932.823.591	-	482.843.765	-
13. Long term liabilities (12)	1.932.823.591	-	482.843.765	-
14. Total liabilities (11 + 13)	4.333.317.055	67.395.234	1.023.040.586	379.575
15. Net foreign currency assets/(liabilities) position (7 - 14)	(2.189.125.182)	(9.642.426)	(537.998.631)	(374.278)
16. Net monetary foreign currency assets/(liabilities) (1 + 2 + 5 - 8 - 9 - 10 - 12)	(2.386.417.034)	(15.967.450)	(581.743.163)	(374.278)

(*) The Company's net foreign exchange position is mainly due to long term Euro denominated loans obtained to fund its investments. The Company is hedged for the foreign currency exchange risk of a portion of those Euro denominated loans amounting to TL 1.951.476.713 at June 31, 2017 by export agreements signed with Ford Motor Company. (December 31, 2016 TL 2.082.684.834).

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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 financials 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 SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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.

30 June 2017

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	Increase by 10%	Decrease by 10%
Change in USD against TL		
USD net assets/(liabilities)	(3.381.696)	3.381.696
USD net hedged amount	-	-
USD net- gain/(loss)	(3.381.696)	3.381.696
Change in Euro against TL		
Euro net (liabilities)/assets	(215.360.852)	215.360.852
Euro net hedged amount	195.147.671	(195.147.671)
Euro net- gain/(loss)	(20.213.181)	20.213.181
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities)/assets	(169.971)	169.971
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net -(loss)/gain	(169.971)	169.971

31 December 2016

Appreciation/depreciation in foreign currency	Profit/(loss) before taxation	
	Increase by 10%	Decrease by 10%
Change in USD against TL		
USD net assets/(liabilities)	427.878	(427.878)
USD net hedged amount	-	-
USD 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 SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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 June 30, 2017 and 2016 are as follows:

	30 June 2017	30 June 2016
Total export amount	8.675.522.244	6.056.817.943
Total import amount	5.539.275.817	4.171.178.666

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:

	30 June 2017	31 December 2016
Fixed interest rate financial instruments		
Financial assets	1.685.204.400	1.157.394.395
Financial liabilities	1.843.989.891	1.614.034.149
Floating interest rate financial instruments		
Financial liabilities	1.724.213.188	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 1.931.303 at June 30, 2017 (December 31, 2016: TL 2.470.409) due to higher/lower interest expense.

FORD OTOMOTIV SANAYI A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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:

30 June 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	3.575.902.397	3.696.211.407	636.071.814	1.027.389.200	1.759.274.051	273.476.342
Trade payables						
-Related party	619.879.583	620.726.988	620.726.988	-	-	-
-Other	2.145.884.205	2.160.655.422	2.160.655.422	-	-	-
Other liabilities						
-Related party	3.374.800	3.374.800	3.374.800	-	-	-
-Other	85.875.067	85.875.067	85.875.067	-	-	-

FORD OTOMOTIV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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 SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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 June 30, 2017 and December, 31 2016, the Company's hierarchy table for its assets and liabilities recorded at fair value are as follows:

30 June 2017

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Financial asset available-for-sale - Otokar	15.578.389	-	-
Total assets	15.578.389	-	-

(*) 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	-	-

(*) 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 SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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.

30 June 2017 31 December 2016

Cash flow hedge reserve:

Amount recognized in other comprehensive income	157.791.380	303.001.013
Amount recycled from other comprehensive income to statement of profit or loss	(77.846.415)	(75.774.668)
	79.944.965	227.226.345

NOTE 29 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Income from investing activities				
Dividend income	351.498	-	421.798	421.798
Gain on sale of property, plant and equipment	12.179	-	-	-
	363.677	-	421.798	421.798
	1 January- 30 June 2017	1 April- 30 June 2017	1 January- 30 June 2016	1 April- 30 June 2016
Expense from investing activities				
Loss on sale of property, plant and equipment	(1.479.005)	(1.479.005)	(1.153.331)	3.227
	(1.479.005)	(1.479.005)	(1.153.331)	3.227

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 2017

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

NOTE 30 - DEFERRED REVENUE

	30 June 2017	31 December 2016
Advances received	9.873.715	8.811.150
	9.873.715	8.811.150
	30 June 2017	31 December 2016
Long term deferred revenue	4.259.445	4.757.073
	4.259.445	4.757.073

31. OTHER NON CURRENT LIABILITIES

	30 June 2017	31 December 2016
Other non-current liabilities (*)	85.623.763	75.619.680
	85.623.763	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 İnönü plant.

FORD OTOMOTIV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENT AT JUNE 30, 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

The Company has taken a decision to increase the capacity of annual production from 290 thousand units to 330 thousand units in order to meet increasing export demand and has announced in Material Event Disclosure dated 2 August 2017. The investment will cost USD 52 million and planned for completion in September 2018. When finalized, the production capacity in three plants will rise from 415 thousand units per annum to 455 thousand units per annum.

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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