

FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS FOR THE PERIOD
JANUARY 1- DECEMBER 31, 2017
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
(ORIGINALLY ISSUED IN TURKISH)**



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

INDEPENDENT AUDITOR'S REPORT

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

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Ford Otomotiv Sanayi A.Ş. (the "Company"), which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements and a summary of significant accounting policies and financial statement notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2. Basis for Opinion

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

3. Key Audit Matters

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

Key Audit Matters Cash Flow Hedge Accounting (Notes 2 and 28)	How our audit addressed the Key Audit Matter
Based on the manufacturing agreements with Ford Motor Company, the Company associates sales of specific models of commercial vehicles subject to export by the end of 2022 with long term loans denominated in Euros, borrowed for the investments related to manufacturing of such vehicles. Sales subject to the agreement are denominated in Euro and are affected by the TRY/EUR exchange rate fluctuations. The Company hedges the foreign exchange rate risk with the borrowings obtained in the same currency. We focused on this matter during our audit for the reasons below: - The cash flow hedge losses which are classified under equity as of 31 December 2017 amount to TRY503,120 thousand. This amount is material in terms of the financial statements. - Cash flow hedge accounting is structurally complex and its audit requires professional expertise. Mistakes that might occur when calculating and accounting for this subject may affect the financial statements significantly.	- We tested the official definition and documentation of risk management's target and strategy, which causes the Company to hedge against cash flow risk. We also tested the completeness and accuracy of data and the assumptions used in the hedge accounting work with the support of our subject matter experts. - We reviewed the effectiveness of the cash flow hedge. We tested whether the range of increase/decrease in the fair value of the revenue planned for in future and the increase/decrease in fair value of the borrowings are between 80% and 120%. - We checked the agreements related to the vehicle sales and whether sales volumes and prices of the vehicles subject to cash flow hedging agree with the budget approved by management. We checked whether methods used for calculating vehicle costs comply with the agreement. - We reviewed repayment plans for the borrowings denominated in Euro by reviewing the loan agreements and obtaining bank confirmations. We checked to what extent monthly borrowing payments cover monthly sales. - We checked the mathematical accuracy of the accounting bookings related to this subject. - We assessed the sufficiency of the financial statement disclosures related to the cash flow hedge accounting. We have no significant findings resulting from our work related to cash flow hedge accounting.

Key Audit Matters	How our audit addressed the Key Audit Matter
Warranty Provisions (Notes 2, 8 and 16)	
The Company has warranty provisions amounting to TRY231,525 thousand as of 31 December 2017. We focused on this matter during our audit for the reasons below: - The warranty provision of TRY231,525 thousand is a liability in the statements. The amount of the warranty provision is material. - The Company provides a standard warranty service and optional roadside assistance, extended warranty and spare part warranty services for any vehicle sold domestically. The Company calculates the current period warranty provision based on the actual warranty expense per vehicle in the previous period. The warranty cost per vehicle is approved twice a year by management and is calculated for each vehicle model, based on the technical department's experience and warranty claims in the past also complying with the instructions of Ford Motor Company. Since the warranty cost per vehicle is determined in Euro, foreign exchange rate estimation is also included in the calculation. Fluctuation of the foreign exchange rates may affect the financial statements materially. Warranty provision calculation is determined to be a Key Audit Matter since it involves estimations bearing an inherent risk of misstatement.	- When calculating the warranty provision, the management makes assumptions based on the number of vehicles subject to warranty, the length of the warranty period, and the warranty claims in the previous periods. We tested the effectiveness of the controls during the estimation process. - We confirmed that unit managers approve the unit cost estimations per vehicle. We tested unit costs through sampling by detailed tests. - To test the data on which the estimations are based, the number of vehicles sold were agreed to the sales reports. Sales reports were reconciled to the sale accounts. - Foreign exchange rates are considered when estimating the warranty cost per vehicle. We confirmed that the foreign exchange rate, which is a forward-looking estimate used when calculating the warranty provision, is the same foreign exchange rate used in the budget approved by the management. We also evaluated the reasonableness of the warranty provision considering the fluctuations of the foreign exchange rate. - We tested the actual warranty expenses realised in the current period on a sampling basis based on the movements of the warranty provision amounting to TRY231,525 thousand. - We tested the reasonableness of the actual warranty expenses with the warranty provisions set aside in previous periods. - Warranty provisions are calculated based on cost per vehicle estimations, considering the actual claims in the past and also technically and financially planned developments. We performed a sensitivity analysis on these estimations and assessed their impact. - We assessed the sufficiency of the financial statement disclosures related to warranty expenses. We have no significant findings resulting from our work related to warranty provisions.



4. Other Matters

The financial statements of Ford Otomotiv Sanayi A.Ş. were audited by another audit firm whose audit report dated 14 February 2017 expressed an unqualified opinion.

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

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

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

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

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

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

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

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

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



- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 12 February 2018.

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

A handwritten signature in blue ink, appearing to read "Beste Gücumen", is written over a horizontal line.

Beste Gücumen, SMMM
Partner

Istanbul, 12 February 2018

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FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016**

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

	Notes	Current period audited 31 December 2017	Previous period audited 31 December 2016
Assets			
Current assets		6.827.040	4.675.977
Cash and cash equivalents	4	1.805.945	1.189.033
Trade receivables			
- Due from related parties	26	2.057.267	1.362.949
- Due from third parties	7	1.299.746	794.771
Other receivables			
- Due from third parties	8	521	504
Inventories	9	1.152.490	1.054.426
Prepaid expenses	12	101.979	59.011
Other current assets	16	404.561	213.526
Current tax assets	24	-	1.757
Derivative financial assets	28	4.531	-
Non-current assets		5.184.700	4.610.175
Financial assets	5	17.406	18.756
Trade receivables			
- Due from third parties	7	3.002	1.464
Property, plant and equipment	10	3.536.220	3.302.745
Intangible assets	11	690.337	552.563
Prepaid expenses	12	311.292	178.333
Deferred tax assets	24	626.443	556.314
Total assets		12.011.740	9.286.152

Financial statements for the period ended 1 January - 31 December 2017 were approved for issue by the Board of Directors on 12 February 2018.

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

FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016**

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

	Notes	Current period audited 31 December 2017	Previous period audited 31 December 2016
Liabilities			
Current liabilities		6.049.677	4.307.860
Short-term borrowings			
- Bank borrowings	6	1.061.621	771.572
Short-term portion of long-term borrowings			
- Bank borrowings	6	722.259	576.703
Trade payables			
- Due to related parties	26	895.559	794.183
- Due to third parties	7	2.921.390	1.823.160
Other payables			
- Due to related parties	26	31.438	18.763
- Due to third parties	8	56.385	76.129
Deferred revenue	30	10.929	8.811
Short-term provisions			
- Other provisions	13	159.614	136.240
Employee benefit liabilities	15	184.092	102.299
Current tax liabilities	24	6.390	-
Non-current liabilities		2.266.204	1.814.673
Long-term borrowings			
- Bank borrowings	6	1.820.167	1.503.855
Long-term provisions			
- Provision for employment termination benefits	15	153.484	130.326
- Other provisions	13	169.285	100.115
Deferred revenue	30	7.450	4.757
Other non-current liabilities	31	115.631	75.620
Derivative financial liabilities	28	187	-
Equity	17	3.695.859	3.163.619
Paid-in capital		350.910	350.910
Inflation adjustments on capital		27.920	27.920
Share premium		8	8
Other comprehensive income/(loss) not to be reclassified under profit or loss			
- Losses on remeasurements of defined benefit plans		(14.001)	(14.019)
Other comprehensive income/(loss) to be reclassified in profit or loss			
- Gains on remeasurements and/or reclassification of available-for-sale financial assets		15.608	16.890
- Losses on cash flow hedges		(503.120)	(336.189)
Restricted reserves		254.404	284.207
Retained earnings		2.074.147	1.878.584
Net profit for the period		1.489.983	955.308
Total liabilities and equity		12.011.740	9.286.152

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

FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF PROFIT OR LOSS FOR THE YEARS
ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016**

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

	Notes	Current period audited 1 January- 31 December 2017	Previous period audited 1 January- 31 December 2016
Continuing operations			
Revenue	18	25.341.290	18.289.107
Cost of sales	18	(22.704.095)	(16.203.045)
Gross profit		2.637.195	2.086.062
Marketing expenses	19	(544.303)	(448.266)
General administrative expenses	19	(249.480)	(225.038)
Research and development expenses	19	(317.192)	(383.844)
Other income from operating activities	21	460.462	281.426
Other expenses from operating activities	21	(278.508)	(199.316)
Profit from operating activities		1.708.174	1.111.024
Income from investing activities	29	363	422
Expenses from investing activities	29	(3.407)	(6.263)
Operating income before financial income / (expense)		1.705.130	1.105.183
Financial income	22	562.262	310.182
Financial expenses	23	(786.231)	(445.194)
Profit from continuing operations before tax		1.481.161	970.171
Tax income / (expense) from continuing operations		8.822	(14.863)
Current tax expenses	24	(19.511)	(20.414)
Deferred tax income	24	28.333	5.551
Net profit		1.489.983	955.308
Earnings per share with a nominal value Kr	25	4,25 Kr	2,72 Kr

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

FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEARS
ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016**

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

		Current period audited 1 January- 31 December 2017	Previous period audited 1 January- 31 December 2016
	Notes		
Net profit		1.489.983	955.308
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss			
Gains / (losses) on remeasurements of defined benefit plans	17	23	(15.458)
Other comprehensive income tax not to be reclassified to profit or loss			
Taxes relating to remeasurements of defined benefit plans	17	(5)	3.091
Other comprehensive income to be reclassified to profit or loss			
(Losses) / gains on remeasurements or reclassification adjustments on available-for-sale financial assets	17	(1.350)	6.130
(Losses) / gains on cash flow hedges	17	(208.664)	(227.226)
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	68	(306)
Taxes relating to cash flow hedges	17	41.733	45.445
Other comprehensive (loss) / income		(168.195)	(188.324)
Total comprehensive income		1.321.788	766.984

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR PERIODS 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of 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				
	Paid-in capital	Inflation adjustments on capital	Share premium	Gain/(losses) on remeasurements and/or reclassification of available-for-sale financial assets	Cash flow hedge reserve	Gains/(losses) on remeasurements defined benefit plans	Restricted reserves	Retained earnings		Total equity
								Accumulated profit	Net profit	
Balances at 1 January 2016	350.910	27.920	8	11.066	(154.408)	(1.652)	438.411	1.545.689	841.911	3.059.855
Profit for the period	-	-	-	-	-	-	-	-	955.308	955.308
Other comprehensive income/(loss)	-	-	-	5.824	(181.781)	(12.367)	-	-	-	(188.324)
Total comprehensive income	-	-	-	5.824	(181.781)	(12.367)	-	-	955.308	766.984
Transfers	-	-	-	-	-	-	64.567	777.344	(841.911)	-
Dividends paid (Note 17)	-	-	-	-	-	-	(218.771)	(444.449)	-	(663.220)
Balances at 31 December 2016	350.910	27.920	8	16.890	(336.189)	(14.019)	284.207	1.878.584	955.308	3.163.619
Balances at 1 January 2017	350.910	27.920	8	16.890	(336.189)	(14.019)	284.207	1.878.584	955.308	3.163.619
Profit for the period	-	-	-	-	-	-	-	-	1.489.983	1.489.983
Other comprehensive income/(loss)	-	-	-	(1.282)	(166.931)	18	-	-	-	(168.195)
Total comprehensive income	-	-	-	(1.282)	(166.931)	18	-	-	1.489.983	1.321.788
Transfers	-	-	-	-	-	-	77.200	878.108	(955.308)	-
Dividends paid (Note 17)	-	-	-	-	-	-	(107.003)	(682.545)	-	(789.548)
Balances at 31 December 2017	350.910	27.920	8	15.608	(503.120)	(14.001)	254.404	2.074.147	1.489.983	3.695.859

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

FORD OTOMOTİV SANAYİ A.Ş.**STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 2016**

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

	Notes	Current period audited 31 December 2017	Previous period audited 31 December 2016
Cash flows generated from / (used in) operating activities:		2.158.569	1.612.405
Net profit for the period		1.489.983	955.308
Adjustments to reconcile profit or loss:		1.176.370	930.238
Adjustments for depreciation and amortisation expense	10,11	473.624	456.387
Adjustments for impairment loss of inventories	9	(1.326)	903
Adjustments for provisions related with employee benefits		115.416	36.650
Adjustments for lawsuit and/or penalty provisions	13	12.706	7.372
Adjustments for warranty provisions	13	188.087	155.559
Adjustments for other provisions		8.041	14.267
Adjustments for dividend income	29	(351)	(422)
Adjustments for interest income	22	(74.896)	(22.587)
Adjustments for interest expense	23	42.394	40.739
Adjustments for tax expenses	24	(8.822)	14.863
Adjustments for unearned financing income	21	(139.378)	(92.716)
Adjustments for deferred financing expense	21	177.790	118.062
Adjustments for gain / (loss) on sales of property, plant and equipment	29	3.395	6.263
Other adjustments for which cash effects are investing or financing cash flow		379.690	194.898
Changes in working capital		(332.578)	(102.135)
(Increase) / decrease in trade receivable		(1.213.698)	(374.652)
(Increase) / decrease in inventories		(129.440)	(77.448)
(Increase) / decrease in prepaid expenses		(42.968)	(23.885)
Increase / (decrease) in trade payable		1.211.171	302.813
(Increase) / decrease in other assets		(195.396)	16.439
Increase / (decrease) in other payables		37.753	54.598
Cash flows generated from / (used in) operations		2.333.775	1.783.411
Interest paid		(164.923)	(118.674)
Interest received		127.813	93.596
Payments related with provisions for employee benefits	15	(10.442)	(14.522)
Payments related with other provisions		(116.290)	(110.259)
Taxes paid		(11.364)	(21.147)
Cash flows used in investing activities		(938.317)	(585.715)
Proceeds from sales of property, plant and equipment		571	10.425
Purchase of property, plant and equipment		(590.897)	(419.075)
Purchase of intangible assets		(215.383)	(90.710)
Cash advances given		(132.959)	(86.777)
Dividends received		351	422
Cash flows provided by financing activities		(605.875)	(818.294)
Proceeds from borrowings		2.304.890	1.780.922
Repayment of borrowings		(2.141.327)	(1.911.685)
Dividends paid	17	(789.548)	(663.220)
Interest paid		(52.251)	(46.622)
Interest received		72.361	22.311
Net increase / (decrease) in cash and cash equivalents		614.377	208.396
Cash and cash equivalents at the beginning of the period		1.188.540	980.144
Cash and cash equivalents at the end of the period	4	1.802.917	1.188.540

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of 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:

	Average		Year end	
	December 2017	December 2016	December 2017	December 2016
Blue collar	8.172	7.844	8.847	7.561
White collar	2.663	2.749	2.654	2.700
Total	10.835	10.593	11.501	10.261

Research and development operations which are also subject to service export is conducted with 1.176 employees in Sancaktepe branch, conducted with 248 employees in R&D centre in Kocaeli plant, and conducted with 84 employees in R&D centre in Eskişehir İnönü plant, totally 1.508 employees as of 31 December 2017 (31 December 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 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.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

2.1 Basis of presentation (Continued)

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 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 31 December 2017 has been provided with the comparative financial information of 31 December 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 1 January and 31 December 2017 have been provided with the comparative financial information, for the period between 1 January 2016 and 31 December 2016.

In order to be consistent with the financial statements of current period, other current assets have been decreased by TL 1.757 the same amount have been reclassified under current tax assets accordingly.

2.2 Amendments and interpretations in the standards

The new standards, amendments and interpretations

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

- (a) The new standards, amendments and interpretations which are effective as at 31 December 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.

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

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

2.2 Amendments and interpretations in the standards (Continued)

- Annual improvements 2014-2016; 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) The following new standards, interpretations and amendments have been issued as of 31 December 2017, which are not yet effective for the current reporting period and have not been early adopted by the Company as of the date of approval of the financial statements for the year then ended. The Company will make necessary changes to affect its financial statements and footnotes after the new standards and interpretations have entered into force, unless otherwise stated.
- 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 - Classification and Disclosure"; The UPS has issued TFRS 9 Financial Instruments in January 2016. TFRS 9 combines the three aspects of the financial instruments accounting project: classification and measurement, impairment and hedge accounting. TFRS 9 relies on a rational, single classification and measurement approach that reflects the business model and cash flow characteristics that are managed within financial assets. Thereupon, a single model has been established that can be applied to all financial instruments subject to impairment accounting with a forward 'expected credit loss' model that will enable credit losses to be accounted for more timely. In addition, IFRS 9 requires that banks and other entities choose an option to measure their financial liabilities at fair value, in the form of a so-called "own credit risk" that results in the recording of income in the profit or loss table due to a decrease in the fair value of the financial liability, it deals with the issue. The standard also includes a hedging model developed to better correlate risk management economics with accounting practices. TFRS 9 is effective for annual periods beginning on or after 1 January 2018 and early application of all requirements of the standard is permitted. Alternatively, entities may prefer to apply early provisions for the presentation of gains or losses of financial liabilities designated as "fair value change, profit or loss" only, without applying other standard requirements. The Company is in the process of assessing the impact of the standard on financial position and performance and does not expected to have any significant impact.
- TFRS 15 "Revenue from contracts with customers"; In September 2016, the TFRS published the Revenue Standard from Contracts with Customers. This published standard also includes amendments to IASB in April 2016 to clarify IFRS 15. The new five-phase model in the standard describes the requirements for revenue recognition and measurement. The standard establishes a model for accounting for and measuring the sale of certain non-financial assets (e.g. property, plant and equipment) that are not related to the ordinary activities of an entity, which will be treated as revenue generated from contracts with customers. The effective date of TFRS 15 is annual accounting periods beginning on or after 1 January 2018.

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

2.2 Amendments and interpretations in the standards (Continued)

Early application is allowed. Two alternative applications are presented for transition to TFRS 15; full retroactive application or modified retroactive application. If modified retroactive application is preferred, prior periods will not be restated but comparative quantitative information will be provided in the footnotes of the financial statements. The Company's sales are comprised of sales of vehicles, spare parts and services, and there is usually a single obligation to act. In parallel with the previous periods, sales of vehicles and spare parts will be accounted for when transferring the risks and benefits related to the product when delivering the product and service sales are provided for the service and revenue can be reliably measured. Therefore, it is not expected that the new standard will have a significant effect on the financial position and performance of the Company.

- 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.
- 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.

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NOTES TO FINANCIAL STATEMENTS

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

2.2 Amendments and interpretations in the standards (Continued)

- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - 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": This amendment clarifies that investments in associates and joint ventures are accounted for in accordance with TFRS 9 Financial Instruments if investments in associates or joint ventures are held indirectly or directly through an enterprise or similar enterprise it is clear that the ability to choose to measure the fair value difference in profit or loss reflected is valid at the time of initial recognition of each subsidiary or business partnership. The amendment will apply to annual periods beginning on or after 1 January 2018. Early application is allowed.

The financial status of the Company and its impact on its performance are assessed.

- 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.
- TFRS Comment 23 "Uncertainties in taxation" are effective for annual reporting periods beginning on or after 1 January 2019. This interpretation clarifies some of the uncertainties in the application of TAS 12 Income Tax Standard. IFRS Interpretation Committee clarified that if uncertainty in tax practices had previously been applied, the uncertainty should apply to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' standard instead of IAS 12.

The new standards, amendments and interpretations (Continued)

TFRS Comment 23 provides guidance on how to measure and account for deferred tax calculations when there are uncertainties in income taxes. Tax application uncertainty arises when a tax application by a company is unknown to the tax authority. For example, especially if an expense is recognized as a deduction or if the tax return is uncertain in the tax statement regarding whether or not to include a certain amount in the tax calculation. TFRS Comment 23; applicable when a tax practice is vague and there are uncertainties including taxable income, expense, asset or liability, tax base and and tax rates.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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).

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).

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

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

2.3 Summary of significant accounting policies (Continued)

Trade payables

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

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

The estimated useful lifetimes of such assets are as follows:

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

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

2.3 Summary of significant accounting policies (Continued)

Impairment of long-lived assets

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

Financial assets

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

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

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

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

Share premium

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

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).

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

2.3 Summary of significant accounting policies (Continued)

Taxes on income

Taxes include current period income taxes and deferred taxes.

Current period income tax

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

Deferred tax

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

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

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

Current and deferred tax

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

Revenue recognition

Goods & services sales

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

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

2.3 Summary of significant accounting policies (Continued)

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

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

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 exchange rates prevailing at the statement of the financial position dates. Foreign currency exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized under the other operating income/expenses and financial income/expense in the statement of profit or loss (Notes 21, 22, 23 and 27).

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

	TL/USD	TL/Euro	TL/GBP
31 December 2017	3,7719	4,5155	5,0803
31 December 2016	3,5192	3,7099	4,3189

NOTES TO FINANCIAL STATEMENTS

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

2.3 Summary of significant accounting policies (Continued)

Financial instruments and financial risk management

Credit risk

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

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

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

Price risk

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

Liquidity risk

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

Interest rate risk

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

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

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

2.3 Summary of significant accounting policies (Continued)

Funding risk

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

Foreign exchange risk

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

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

Capital risk management

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

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

The Company monitors capital on the basis of the "net financial debt to tangible capital ratio". This ratio is calculated as net financial debt divided by tangible capital. Net financial debt is calculated as total short and long term borrowings minus cash and cash equivalents, whereas tangible equity is calculated as equity, as shown in the statement of financial position minus intangible assets. According to the decision of Company management, this ratio is expected not to exceed 1,25.

	31 December 2017	31 December 2016
Net financial debt	1.798.102	1.663.097
Tangible equity	3.005.522	2.611.056
Net financial debt/tangible equity ratio	0,60	0,64

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

2.3 Summary of significant accounting policies (Continued)

Fair value of financial instruments

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

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

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

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

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

Financial assets

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

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.

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

2.3 Summary of significant accounting policies (Continued)

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

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

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

Borrowings and borrowing costs

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

Provision for employee benefits

a) Defined benefit plan

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

2.3 Summary of significant accounting policies (Continued)

b) Defined contribution plan

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

c) Other employee benefits

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

Provisions

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

Provisions for sales premium

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

Warranty expenses provision

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

Research and development expenses

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

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

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

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NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

2.3 Summary of significant accounting policies (Continued)

Leasing - the Company as the lessee

Operating leases

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

Leasing - the Company as the lessor

Operational leasing

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

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).

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

2.3 Summary of significant accounting policies (Continued)

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).

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).

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

2.3 Summary of significant accounting policies (Continued)

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.

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).

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NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

2.5 Significant accounting estimates and decisions (Continued)

- (f) Deferred tax assets are recognized when the occurrence of taxable profit is probable in the forthcoming years. Deferred tax asset is calculated over any temporary differences in cases when the occurrence of taxable profit is probable, taken into consideration of tax advantages obtained within the context of investment incentive certificates. Deferred tax asset is recorded as of 31 December 2017 and 31 December 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 (Notes 10 and 11).
- (h) Development costs related to continuing projects are capitalized and the Company management perform impairment test regarding those capitalized costs annually. As of 31 December 2017 and 31 December 2016, there is no impairment determined related to development costs in progress (Note 11).

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% (31 December 2016: 1,77%) and the weighted average interest rate for the TL time deposits is 14,91%, (31 December 2016: 10,94%).

	31 December 2017	31 December 2016
Banks - foreign currency time deposits	1.039.955	751.380
Banks - TL time deposits	724.578	405.696
Banks - TL demand deposits	35.399	30.805
Banks - foreign currency demand deposits	2.985	659
Cash and cash equivalents in the cash flow statement	1.802.917	1.188.540
Interest income accrual	3.028	493
	1.805.945	1.189.033

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

NOTE 5 - FINANCIAL ASSETS

	31 December 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	17.406	0,59	18.756
		17.406		18.756

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

NOTE 6 - FINANCIAL LIABILITIES**Short-term borrowings:**

	31 December 2017		31 December 2016	
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	0,84	910.746	0,92	630.804
- USD	2,41	150.875	1,96	140.768
		1.061.621		771.572

Short-term portion of long-term borrowings:

- Euro	1,80	722.259	1,50	576.703
		722.259		576.703

Total short-term borrowings		1.783.880		1.348.275
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Long-term borrowings:

	31 December 2017		31 December 2016	
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	1,62	1.820.167	1,57	1.503.855
		1.820.167		1.503.855

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

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

Payment period	31 December 2017 Total TL	31 December 2016 Total TL
2018	551.302	578.550
2019	489.827	444.441
2020	366.299	274.403
2021	186.965	176.769
2022	150.517	29.692
2023	75.257	-
	1.820.167	1.503.855

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TL 1.432.410 (31 December 2016 - TL 1.188.529) (Note 13).

The movement of financial liabilities as of 31 December 2017 and 2016 is as follows:

	2017	2016
1 January	2.852.130	2.560.766
Effect of cash flows	163.562	(130.763)
Unrealised foreign exchange differences	588.355	422.127
31 December	3.604.047	2.852.130

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
Short - term trade receivables:		
Trade receivables	1.317.031	802.670
Doubtful receivables	4.533	4.533
Less: Unearned credit finance income	(17.285)	(7.899)
	1.304.279	799.304
Less: Provision for doubtful receivables	(4.533)	(4.533)
	1.299.746	794.771

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2016: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2016: 70 days) and discounted by 1,32% monthly effective interest rate (31 December 2016: 0,96%).

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

31 December 2017 31 December 2016

Long - term trade receivables:

Deposits and guarantees given	3.002	1.464
	3.002	1.464

31 December 2017 31 December 2016

Trade payables:

Trade payables	2.941.886	1.832.582
Less: Unearned credit finance expense	(20.496)	(9.422)
	2.921.390	1.823.160

The average turnover of trade payables is 60 days (31 December 2016: 60 days) and discounted by 1,32% monthly effective interest rate (31 December 2016: 0,96%).

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

31 December 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)	2.057.267	1.299.746	-	521	1.802.917
- The maximum of credit risk covered by guarantees	160.000	1.298.956	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	2.010.378	1.298.698	-	521	1.802.917
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	46.889	1.048	-	-	-
- Amount of risk covered by guarantees	-	258	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4.533	-	-	-
- Provision for impairment (-)	-	(4.533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2016	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	1.362.949	794.771	-	504	1.188.540
- The maximum of credit risk covered by guarantees	160.000	729.657	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	1.340.961	791.095	-	504	1.188.540
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	3.676	-	-	-
- Amount of risk covered by guarantees	-	853	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4.533	-	-	-
- Provision for impairment (-)	-	(4.533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

31 December 2017	Trade receivables	
	Related party	Other
1-30 days overdue	37.591	261
1-3 months overdue	6.493	464
3-12 months overdue	2.440	308
1-5 years overdue	365	15
	46.889	1.048
Risk covered by guarantees	-	258

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

31 December 2016	Trade receivables	
	Related party	Other
1-30 days overdue	10.169	3.456
1-3 months overdue	7.757	49
3-12 months overdue	1.901	171
1-5 years overdue	2.161	-
	21.988	3.676
Risk covered by guarantees	-	853

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
Other receivables		
Other miscellaneous receivables	521	504
	521	504
	31 December 2017	31 December 2016
Other payables		
Taxes and funds payable	42.234	43.609
Sales premium accruals	8.359	8.712
Rent accruals	-	17.465
Other	5.792	6.343
	56.385	76.129

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 9 - INVENTORIES

	31 December 2017	31 December 2016
Raw materials	410.330	304.206
Finished goods	214.519	289.056
Goods in transit	189.613	200.055
Import vehicles	114.479	89.740
Vehicle spare parts	169.971	127.888
Spare parts	25.014	19.626
Other	32.470	29.087
	1.156.396	1.059.658
Less: Provision for impairment of finished goods and vehicle spare parts	(3.906)	(5.232)
	1.152.490	1.054.426

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	5.232	4.329
Change within the period	(1.326)	903
31 December	3.906	5.232

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

1 January 2017	Land	Land improvements	Buildings	Machinery & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Construction in progress	Total
Cost	12.269	155.317	938.595	2.406.475	2.097.201	382.723	91.150	93.680	6.177.410
Accumulated depreciation	-	(71.313)	(370.831)	(1.145.067)	(1.053.373)	(219.873)	(14.208)	-	(2.874.665)
Net book value	12.269	84.004	567.764	1.261.408	1.043.828	162.850	76.942	93.680	3.302.745
For the period ended 31 December 2017									
Opening net book value	12.269	84.004	567.764	1.261.408	1.043.828	162.850	76.942	93.680	3.302.745
Additions	-	8.346	14.953	179.274	282.925	25.754	31.467	90.737	633.456
Transfers	-	48	24.209	30.378	8.505	176	6.129	(69.445)	-
Disposals	-	-	(724)	(15.622)	(2.199)	(824)	(5.715)	-	(25.084)
Depreciation charge	-	(5.853)	(31.458)	(140.655)	(175.000)	(32.667)	(10.382)	-	(396.015)
Disposals from accumulated depreciation	-	-	724	14.919	2.159	642	2.674	-	21.118
Closing net book value	12.269	86.545	575.468	1.329.702	1.160.218	155.931	101.115	114.972	3.536.220
31 December 2017									
Cost	12.269	163.711	977.033	2.600.505	2.386.432	407.829	123.031	114.972	6.785.782
Accumulated depreciation	-	(77.166)	(401.565)	(1.270.803)	(1.226.214)	(251.898)	(21.916)	-	(3.249.562)
Net book value	12.269	86.545	575.468	1.329.702	1.160.218	155.931	101.115	114.972	3.536.220

The Company compared the borrowing cost of investment loans in foreign currency to the market loan interest denominated in TL and foreign exchange differences and interest costs equal to an amount of TL 9.857 (31 December 2016: TL 5.882) has been recognized under property, plant and equipment according to the cumulative approach within the context of TMS 23 as of 31 December 2017.

There is no collateral, pledge or mortgage on tangible assets as of 31 December 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 103.636 (31 December 2016: TL 74.886).

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NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

1 January 2016	Land	Land improvements	Buildings	Machinery & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Construction in progress	Total
Cost	12.269	150.449	905.799	2.287.633	1.941.079	344.843	74.226	45.465	5.761.763
Accumulated depreciation	-	(66.616)	(339.275)	(1.012.441)	(892.703)	(193.167)	(6.843)	-	(2.511.045)
Net book value	12.269	83.833	566.524	1.275.192	1.048.376	151.676	67.383	45.465	3.250.718
For the period ended 31 December 2016									
Opening net book value	12.269	83.833	566.524	1.275.192	1.048.376	151.676	67.383	45.465	3.250.718
Additions	-	3.846	10.124	110.111	153.094	42.795	33.673	93.592	447.235
Transfers	-	2.155	23.237	15.931	3.838	13	203	(45.377)	-
Disposals	-	(1.133)	(565)	(7.200)	(810)	(4.928)	(16.952)	-	(31.588)
Depreciation charge	-	(5.615)	(31.633)	(139.504)	(161.480)	(31.156)	(9.132)	-	(378.520)
Disposals from accumulated depreciation	-	918	77	6.878	810	4.450	1.767	-	14.900
Closing net book value	12.269	84.004	567.764	1.261.408	1.043.828	162.850	76.942	93.680	3.302.745
31 December 2016									
Cost	12.269	155.317	938.595	2.406.475	2.097.201	382.723	91.150	93.680	6.177.410
Accumulated depreciation	-	(71.313)	(370.831)	(1.145.067)	(1.053.373)	(219.873)	(14.208)	-	(2.874.665)
Net book value	12.269	84.004	567.764	1.261.408	1.043.828	162.850	76.942	93.680	3.302.745

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	31 December 2017	31 December 2016
Cost of production (Note 18)	367.067	352.537
Research and development expenses (Note 19)	16.328	14.330
General administrative expenses (Note 19)	8.221	7.437
Marketing expenses (Note 19)	2.971	2.723
Associated with construction in progress	1.428	1.493
	396.015	378.520

NOTE 11 - INTANGIBLE ASSETS

1 January 2017	Rights	Development cost	Development cost in progress	Other	Total
Cost	40.352	653.879	129.107	6.483	829.821
Accumulated amortisation	(36.497)	(235.286)	-	(5.475)	(277.258)
Net book value	3.855	418.593	129.107	1.008	552.563

For the period ended 31 December 2017

Opening net book value	3.855	418.593	129.107	1.008	552.563
Additions	14.741	(1.490)	201.059	1.073	215.383
Amortisation charge	(8.908)	(68.016)	-	(685)	(77.609)
Closing net book value	9.688	349.087	330.166	1.396	690.337

31 December 2017

Cost	55.093	652.389	330.166	7.556	1.045.204
Accumulated amortisation	(45.405)	(303.302)	-	(6.160)	(354.867)
Net book value	9.688	349.087	330.166	1.396	690.337

There is no fully depreciated intangible assets as of 31 December 2017.

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

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FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 11 - INTANGIBLE ASSETS (Continued)

1 January 2016	Rights	Development cost	Development cost in progress	Other	Total
Cost	31.101	649.415	52.669	6.460	739.645
Accumulated amortisation	(29.106)	(165.992)	-	(4.827)	(199.925)
Net book value	1.995	483.423	52.669	1.633	539.720

For the period ended 31 December 2016

Opening net book value	1.995	483.423	52.669	1.633	539.720
Additions	9.785	4.464	76.438	23	90.710
Disposals	(534)	-	-	-	(534)
Amortisation charge	(7.925)	(69.294)	-	(648)	(77.867)
Disposals from accumulated amortisation	534	-	-	-	534
Closing net book value	3.855	418.593	129.107	1.008	552.563

31 December 2016

Cost	40.352	653.879	129.107	6.483	829.821
Accumulated amortisation	(36.497)	(235.286)	-	(5.475)	(277.258)
Net book value	3.855	418.593	129.107	1.008	552.563

The allocation of amortisation charges of intangible assets relating to 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Cost of production (Note 18)	69.734	70.824
General administrative expenses (Note 19)	4.502	4.434
Research and development expenses (Note 19)	2.804	2.391
Marketing expenses (Note 19)	472	88
Associated with construction in progress	97	130
	77.609	77.867

NOTE 12 - PREPAID EXPENSES

Short - term prepaid expenses:	31 December 2017	31 December 2016
Advances given for inventories	86.338	53.091
Other prepaid expenses	15.641	5.920
	101.979	59.011

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

NOTE 12 - PREPAID EXPENSES (Continued)

Long - term prepaid expenses:	31 December 2017	31 December 2016
Advances given for investments (*)	300.805	178.333
Other prepaid expenses	10.487	-
	311.292	178.333

(*) Advances given for investments are related to the Company's new vehicle investments. TL 244.988 (31 December 2016: TL 133.801) is given to domestic vendors as mould advances and TL 55.817 (31 December 2016: TL 44.532) 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 balance sheet date and warranty claims of vehicles sold in previous years on a model basis.

Short-term provisions

	31 December 2017	31 December 2016
Warranty expense provision	108.900	93.567
Provisions for sales premium (*)	50.714	42.673
	159.614	136.240

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

Long-term provisions

	31 December 2017	31 December 2016
Warranty expense provision	122.625	60.820
Provisions for lawsuits	46.660	39.295
	169.285	100.115

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

	2017	2016
1 January	39.295	39.395
Paid during the period	(5.341)	(7.472)
Additions during the period	12.706	7.372
31 December	46.660	39.295

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(Amounts expressed in thousands of 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	101.615
Paid during the period	(110.949)	(102.787)
Additions during the period (Note 19)	188.087	155.559
31 December	231.525	154.387

Letters of guarantee and letters of credit	31 December 2017	31 December 2016
Letters of guarantee given to financial institutions due to bank loans	1.432.410	1.188.529
Letters of guarantee given to customs	49.762	41.696
Letters of guarantees given to other parties	14.102	11.051
	1.496.274	1.241.276

Letters of guarantee given	31 December 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
Euro	293.866	1.326.954	292.482	1.085.078
USD	40.013	150.925	40.013	140.814
TL	18.395	18.395	15.384	15.384
		1.496.274		1.241.276

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

Collaterals, pledges and mortgages given by the Company	31 December 2017	31 December 2016
A. Total amount of collaterals/pledges/mortgages given for its own Legal entity	1.496.274	1.241.276
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	-	-
	1.496.274	1.241.276

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

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

Letters of guarantee received

	31 December 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
TL	213.657	213.657	73.006	73.006
Euro	13.358	60.318	7.169	26.596
USD	4.602	17.358	396	1.394
		291.333		100.996

Other

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

NOTE 14 - COMMITMENTS

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

- a) Based on the one year credit agreements made 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 and Euro 80.000.000 is transacted through İş Bankası, totalling Euro 160.000.000 for the year 2017.
- b) The Company, also committed to Türkiye İhracat Kredi Bankası A.Ş (Eximbank);
 - With 8 months term credit amounting to USD 40.000.000 used in December 2017 an export amount of USD 40.000.000,
 - With 8 months term credit amounting to Euro 35.000.000 used in May 2017 an export amount of Euro 35.000.000,
 - With 8 months term credit amounting to Euro 35.000.000 used in June 2017 an export amount of Euro 35.000.000,
 - With 8 months term credit amounting to Euro 105.000.000 used in September 2017 an export amount of Euro 105.000.000.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 14 - COMMITMENTS (Continued)

Operational lease commitments

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

Operational lease commitments	31 December 2017	31 December 2016
Within 1 year	8.282	8.844
Between 1 year to 5 years	10.053	5.748
	18.335	14.592

NOTE 15 - EMPLOYEE BENEFITS

Liabilities for employee benefit obligations:

	31 December 2017	31 December 2016
Salaries and social charges payable	110.644	40.181
Social security premiums payable	40.402	36.991
Withholding income tax payable	30.298	22.989
Other	2.748	2.138
	184.092	102.299

Provision for employee benefits:

	31 December 2017	31 December 2016
Provision for employment termination benefits	131.726	110.025
Provision for unused vacation pay liability	21.758	20.301
	153.484	130.326

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 5.001,76 for each year of service as of January 1, 2018 (31 December 2016: TL 4.297,21).

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

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(Amounts expressed in thousands of 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

	31 December 2017	31 December 2016
Discount rate (%)	11,8	10,8
Expected salary increase rate (%)	6,5	6,0
Net discount rate	4,9	4,5
Turnover rate to estimate the probability of retirement (%)	96,0	95,6

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 5.001,76 which was effective as of January 1, 2018 (July 1 - 31 December 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	110.025	87.579
Interest cost	11.850	9.065
Current year service cost	20.316	12.445
Paid during the period	(10.442)	(14.522)
Actuarial (gains)/losses	(23)	15.458
31 December	131.726	110.025

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

Sensitivity level	<u>Net discount rate</u>		<u>Turnover rate related to the probability of retirement</u>	
	<u>%0,5 decrease</u>	<u>%0,5 increase</u>	<u>%0,5 decrease</u>	<u>%0,5 increase</u>
Rate (%)	(4,4)	(5,4)	95,5	96,5
Change in provision for employee benefits	6.414	(5.922)	(4.430)	4.863

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NOTES TO FINANCIAL STATEMENTS

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NOTE 16 - OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
VAT to be deducted (*)	371.827	196.050
Prepaid taxes and withholding	12.682	4.363
Other	20.052	13.113
	404.561	213.526

(*) VAT to be deducted includes export VAT receivables related to November and December 2017. VAT receivables amounting to TL 148,4 million for November 2017 was collected in January 2018.

NOTE 17 - EQUITY

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

Shareholders	Share Group	31 December 2017	Shareholders percentage (%)	31 December 2016	Shareholders percentage (%)
Koç Holding A.Ş.	B	134.953	38,46	134.953	38,46
Temel Ticaret ve Yatırım A.Ş.	B	2.356	0,67	2.356	0,67
Ford Motor Company	C	143.997	41,04	143.997	41,04
Vehbi Koç Vakfı	A	3.559	1,01	3.559	1,01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3.259	0,93	3.259	0,93
Other (Publicly Held)	A	62.786	17,89	62.786	17,89
Total		350.910	100	350.910	100
Inflation adjustment to share capital		27.920		27.920	
Inflation adjusted paid in capital		378.830		378.830	

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

There are 35.091.000.000 unit of shares (31 December 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 254.404 as of 31 December 2017 (31 December 2016 : TL 284.207).

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NOTES TO FINANCIAL STATEMENTS

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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 as full TL 1.14 gross (Kr 96,90 net) for each share with a value of full TL 1. The Company made the dividend payment in April 2017.

In accordance with the Extraordinary General Assembly Meeting dated as of October 27, 2017, the Company has decided to distribute dividends at the rate of 111% gross, with a total amount of TL 389.511 as full TL 1.11 gross (Kr 94,35 net) for each share with a value of full TL 1. The Company made the dividend payment in November. (In April 2016, 100% of the gross TL 1 share (TL 85,00 Kr) will be TL 350.910 and in November 2016, the full TL 1 share will be TL 89,00 gross (net 75,65 Kr) amounting to TL 312.310; a total of 663.220 TL cash dividend was distributed).

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

NOTE 17 - EQUITY (Continued)

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

	31 December 2017	31 December 2016
Issued capital	350.910	350.910
Inflation adjustments on capital	27.920	27.920
Share premium	8	8
Gains on remeasurement and/or reclassification of available-for sale financial assets	15.608	16.890
Losses on cash flow hedges	(503.120)	(336.189)
Losses on remeasurements of defined benefit plans	(14.001)	(14.019)
<i>Restricted reserves</i>	254.404	284.207
- Legal reserves	254.404	284.207
<i>Retained earnings</i>	2.074.147	1.878.584
- Inflation adjustment to equity	428.301	428.301
- Extraordinary reserves	1.645.846	1.450.283
Net income for the period	1.489.983	955.308
Total equity	3.695.859	3.163.619

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

31 December 2017	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350.910	378.830	27.920
Legal reserves	254.404	313.157	58.753
Extraordinary reserves	1.645.846	2.014.991	369.145
Share premium	8	361	353
Other reserves	-	50	50
	2.251.168	2.707.389	456.221
31 December 2016	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350.910	378.830	27.920
Legal reserves	284.207	342.960	58.753
Extraordinary reserves	1.450.283	1.819.428	369.145
Share premium	8	361	353
Other reserves	-	50	50
	2.085.408	2.541.629	456.221

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

NOTE 17 - EQUITY (Continued)

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

Otokar shares which are publicly traded in BIST are valued at their closing price as of 31 December 2017 and 31 December 2016. As of 31 December 2017, fair value change (negative) amounting to TL (1.282) net of deferred tax, (31 December 2016: TL 5.824) 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	(333.318)	(144.994)
(Losses) gains on remeasurement and/or reclassification of available-for sale financial assets	(1.282)	5.824
Actuarial gains / (losses)	18	(12.367)
Losses on cash flow hedges	(166.931)	(181.781)
31 December	(501.513)	(333.318)

NOTE 18 - REVENUE AND COST OF SALES

	31 December 2017	31 December 2016
Export sales	17.830.091	12.286.677
Domestic sales	8.272.097	6.737.600
Other sales	124.762	75.297
Less: Discounts	(885.660)	(810.467)
	25.341.290	18.289.107

Units of vehicle sales:

	31 December 2017			31 December 2016		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	7.642	157.502	165.144	7.037	129.792	136.829
Transit	29.080	100.181	129.261	27.629	93.077	120.706
Transit Courier	35.549	37.864	73.413	37.451	33.063	70.514
Passenger vehicles	33.543	482	34.025	33.236	402	33.638
Cargo	5.190	1.309	6.499	5.509	877	6.386
Ranger	2.711	32	2.743	2.037	24	2.061
New Transit Connect	1.747	26	1.773	2.887	11	2.898
	115.462	297.396	412.858	115.786	257.246	373.032

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 18 - REVENUE AND COST OF SALES (Continued)

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

	31 December 2017	31 December 2016
Raw material cost	(17.893.433)	(12.343.575)
Production overhead costs	(1.249.605)	(1.032.889)
Depreciation and amortization expenses (Notes 10 and 11)	(436.801)	(423.361)
Changes in finished goods	(73.211)	(70.233)
Total production cost	(19.653.050)	(13.870.058)
Cost of trade goods sold	(3.051.045)	(2.332.987)
Total cost of sales	(22.704.095)	(16.203.045)

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

	31 December 2017	31 December 2016
Marketing expenses		
Warranty expenses (Note 13)	(188.087)	(155.559)
Advertising expenses	(90.695)	(85.708)
Personnel expenses	(83.242)	(69.632)
Vehicle transportation expenses	(59.350)	(49.419)
Spare parts transportation and packaging expenses	(25.237)	(19.656)
Dealer and service development expenses	(23.417)	(14.991)
Export expenses	(19.333)	(11.303)
Depreciation and amortization expenses (Notes 10 and 11)	(3.443)	(2.811)
Other	(51.499)	(39.187)
	(544.303)	(448.266)

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

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

	31 December 2017	31 December 2016
General administrative expenses		
Personnel expenses	(103.730)	(92.080)
Legal, consulting and auditing expenses	(34.798)	(28.532)
Grants and donations	(27.374)	(22.132)
Organization expenses	(14.220)	(14.500)
Depreciation and amortization expenses (Notes 10 and 11)	(12.723)	(11.871)
New project administrative expenses	(12.349)	(12.851)
Travel expenses	(7.011)	(7.010)
Repair, maintenance and energy expenses	(4.659)	(3.312)
Duties, taxes and levies	(4.038)	(5.697)
Other	(28.578)	(27.053)
	(249.480)	(225.038)

	31 December 2017	31 December 2016
Research and development expenses		
Personnel expenses	(153.748)	(166.361)
Project costs	(108.297)	(170.480)
Mechanization expense	(24.378)	(17.604)
Depreciation and amortization expenses (Notes 10 and 11)	(19.132)	(16.721)
Other	(11.637)	(12.678)
	(317.192)	(383.844)

NOTE 20 - EXPENSES BY NATURE

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

	31 December 2017	31 December 2016
Raw material cost	(17.893.433)	(12.343.575)
Cost of trade goods sold	(3.051.045)	(2.332.987)
Personnel expenses	(1.004.888)	(872.414)
Other operational expenses	(734.956)	(695.465)
Other overhead costs	(585.438)	(488.547)
Financial expenses	(786.231)	(445.194)
Depreciation and amortization expenses	(472.099)	(454.764)
Other operational expenses	(278.508)	(199.316)
Expenses from investing activities	(3.407)	(6.263)
Changes in finished goods	(73.211)	(70.233)
Total expenses	(24.883.216)	(17.908.758)

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 21 - OTHER OPERATING INCOME/EXPENSES

	31 December 2017	31 December 2016
Other operating income		
Foreign exchange gains related to trade receivables and payables	212.701	117.234
Credit finance income	139.378	92.716
License fees income	15.481	12.401
Provisions no longer required	14.047	-
Price difference and claim recovery	10.877	10.677
Rent income	5.368	5.172
Commission income	7.057	6.008
Adjustments of prior period corporate income tax	3.302	2.316
Other	52.251	34.902
	460.462	281.426

	31 December 2017	31 December 2016
Other operating expenses		
Credit finance charges	(177.790)	(118.062)
Foreign exchange losses related to trade receivables and payables	(95.109)	(76.684)
Other	(5.609)	(4.570)
	(278.508)	(199.316)

NOTE 22 - FINANCIAL INCOME

	31 December 2017	31 December 2016
Foreign exchange gains	482.835	287.595
Interest income	74.896	22.587
Gains from derivative instruments	4.531	-
	562.262	310.182

NOTE 23 - FINANCIAL EXPENSES

	31 December 2017	31 December 2016
Foreign exchange losses	(722.396)	(388.753)
Interest expenses	(42.394)	(40.739)
Other	(21.441)	(15.702)
	(786.231)	(445.194)

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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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 (e.g. research and development expenditures deduction). No further tax is payable unless the profit is distributed.

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

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

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

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

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

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

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

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

As of 31 December 2017, the Company utilised R&D incentive exemption amounting of TL 518.523 (31 December 2016: TL 414.086) in return for the legal tax.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

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 559.295 (31 December 2016: TL 559.295) 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 1.194.398 for the investment of its new generation Transit model and a privileged investment incentive certificate amounting to TL 697.394 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 187.379 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 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 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 1.194.398 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 the balance sheet, the investment expenditures amounting to TL 2.814.923 (31 December 2016: TL 2.229.638) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TL 167.371 (31 December 2016: TL 66.129) in the current year and this amount has been deducted from the total deferred tax asset.

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

	31 December 2017	31 December 2016
Current year corporate tax expense	(19.511)	(20.414)
Prepaid tax and withholding	13.121	22.171
Current years' profit tax liability	(6.390)	1.757

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

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

	31 December 2017	31 December 2016
Current year corporate tax expense	(19.511)	(20.414)
Current year tax effect of cash flow hedge (*)	(41.733)	(45.445)
Other deferred tax	70.066	50.996
Deferred tax income	28.333	5.551
Continuing operations tax income / (expense)	8.822	(14.863)

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

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

	31 December 2017	31 December 2016
Income before tax:	1.481.161	970.171
Effective tax rate	20%	20%
Current year tax expense	(296.232)	(194.034)
Research and development deductions	103.705	82.817
Investment incentive exemption	192.295	87.885
Other	9.054	8.469
	8.822	(14.863)

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

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

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

(Amounts expressed in thousands of 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 31 December 2017 and 31 December 2016 using the current enacted tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred tax assets:				
Investment incentive tax asset	4.037.011	3.987.624	764.963	740.039
Expense accruals and other provisions	398.708	306.055	86.416	61.211
Employee benefits provision	131.726	110.025	26.345	22.004
Warranty expense provision	231.525	154.387	50.520	30.878
Inventories	26.380	33.381	5.803	6.676
	4.825.350	4.591.472	934.047	860.808
Deferred tax liabilities:				
Tangibles and intangibles	1.459.592	1.430.271	(291.918)	(286.054)
Income accruals and other	72.168	92.200	(15.686)	(18.440)
	1.531.760	1.522.471	(307.604)	(304.494)
Net deferred tax asset			626.443	556.314

The deferred tax movement table is presented below:

	1 January 2017	Charged Statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	31 December 2017
Deferred tax liabilities:				
Tangible and intangible assets	(286.054)	(5.864)	-	(291.918)
Income accruals and other	(18.440)	2.686	68	(15.686)
Deferred tax assets:				
Investment incentive tax asset	740.039	24.924	-	764.963
Expense accruals and other	61.211	25.205	-	86.416
Provision for employee benefits	22.004	4.346	(5)	26.345
Warranty expense provision	30.878	19.642	-	50.520
Inventories	6.676	(873)	-	5.803
Deferred tax asset, net	556.314	70.066	63	626.443

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

NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

	1 January 2016	Charged Statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	31 December 2017
Deferred tax liabilities:				
Tangible and intangible assets	(266.801)	(19.253)	-	(286.054)
Income accruals and other	(12.440)	(5.694)	(306)	(18.440)
Deferred tax assets:				
Investment incentive tax asset	718.283	21.756	-	740.039
Expense accruals and other	18.224	42.987	-	61.211
Provision for employee benefits	17.516	1.397	3.091	22.004
Warranty expense provision	20.323	10.555	-	30.878
Inventories	7.428	(752)	-	6.676
Deferred tax asset, net	502.533	50.996	2.785	556.314

NOTE 25 - EARNINGS PER SHARE

	31 December 2017	31 December 2016
Net income for the year (TL)	1.489.983	955.308
Weighted average number of shares with nominal	35.091.000.000	35.091.000.000
Earnings per share with nominal value of Kr 1 each	4,25 Kr	2,72 Kr

NOTE 26 - RELATED PARTY DISCLOSURES

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

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

a) Receivables from related parties:**i) Trade receivable from related parties**

	31 December 2017	31 December 2016
Due from shareholders:		
Ford Motor Company and its subsidiaries	1.444.291	892.540
	1.444.291	892.540

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

NOTE 26 - RELATED PARTY DISCLOSURES (Continued)**31 December 2017 31 December 2016****Due from group companies (*):**

Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	619.403	474.021
Other	1.736	1.070
	621.139	475.091
Less: Unearned credit finance income	(8.163)	(4.682)
	2.057.267	1.362.949

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

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

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

b) Payables to related parties:**i) Trade payables to related parties****31 December 2017 31 December 2016****Due to shareholders:**

Ford Motor Company and its subsidiaries	760.742	698.913
	760.742	698.913

Trade payables due to related parties (*):

Zer Merkezi Hizmetler ve Ticaret A.Ş.	56.218	34.060
Ram Dış Ticaret A.Ş.	45.224	27.150
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	14.058	6.695
Setur Servis Turistik A.Ş.	4.464	7.031
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3.403	2.331
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	3.193	2.434
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	3.029	10.958
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1.960	1.370
Ram Sigorta Aracılık Hizmetleri A.Ş.	97	476
Other	4.196	3.299
	135.842	95.804
Less: Unearned credit finance expense	(1.025)	(534)
	895.559	794.183

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

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 26 - RELATED PARTY DISCLOSURES (Continued)**ii) Other payables to related parties**

	31 December 2017	31 December 2016
Koç Finansman A.Ş.	13.277	7.342
Koç Holding A.Ş.	10.458	8.578
Yapı ve Kredi Bankası A.Ş.	7.703	2.843
	31.438	18.763

c) Sales to related parties:

	31 December 2017	31 December 2016
Ford Motor Company (*)	17.461.276	12.088.758
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	2.098.534	1.705.926
Other	172	1.312
	19.559.982	13.795.996
Less: Financial income from credit sales	(39.602)	(26.706)
	19.520.380	13.769.290

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

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

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

	1 January - 31 December 2017			
	Material	Service	Fixed assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	21.117	273.877	205	295.199
Ram Dış Ticaret A.Ş.	136.008	-	-	136.008
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	19.250	13.272	32.522
Setur Servis Turistik A.Ş.	-	30.250	-	30.250
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	17.485	9.915	27.400
Koç Holding A.Ş. (*)	-	20.510	-	20.510
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	19.951	-	-	19.951
Koçtaş Yapı Marketleri Ticaret A.Ş.	11.903	-	31	11.934
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	11.532	-	-	11.532
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	9.620	-	9.620
Opet Petrolcülük A.Ş.	5.215	-	-	5.215
Tanı Pazarlama İlet. Hiz. A.Ş.	-	2.270	-	2.270
Other	312	6.416	223	6.951
	206.038	379.678	23.646	609.362
Less: Financial expense from credit purchases	(4.072)	-	-	(4.072)
	201.966	379.678	23.646	605.290

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

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

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

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

	1 January - 31 December 2016			
	Material	Service	Fixed assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	18.372	225.796	216	244.384
Ram Dış Ticaret A.Ş.	99.676	-	-	99.676
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	11.436	17.647	29.083
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	26.663	1.754	28.417
Setur Servis Turistik A.Ş.	-	25.906	-	25.906
Koç Holding A.Ş. (*)	-	19.657	-	19.657
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	15.825	-	-	15.825
Koçtaş Yapı Marketleri Ticaret A.Ş.	9.260	-	6	9.266
Ram Sigorta Aracılık Hizmetleri A.Ş.(**)	-	9.090	-	9.090
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	8.433	-	-	8.433
Opet Petrolcülük A.Ş.	3.911	-	-	3.911
Tanı Pazarlama İlet. Hiz. A.Ş.	-	2.229	-	2.229
Other	40	5.734	156	5.930
	155.517	326.511	19.779	501.807
Less: Financial expense from credit purchases	(2.803)	-	-	(2.803)
	152.714	326.511	19.779	499.004

Material, vehicle and service purchases from abroad:

	31 December 2017	31 December 2016
Ford Motor Company and subsidiaries	11.019.457	7.547.333

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

	31 December 2017	31 December 2016
	148.358	128.112

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

	31 December 2017	31 December 2016
	15.481	12.401

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

	31 December 2017	31 December 2016
	26.369	20.479

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NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

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

Deposits in related banks:	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş.		
- TL time deposits	105.630	-
- TL demand deposits	8.005	17.416
- Foreign currency demand deposits	2.561	239
- Foreign currency time deposits	-	251.506
	116.196	269.161

ı) Commission income:

	31 December 2017	31 December 2016
Koç Finansman A.Ş.	4.272	4.278
Yapı ve Kredi Bankası A.Ş.	2.785	1.730
	7.057	6.008

i) Commission expense:

	31 December 2017	31 December 2016
Koç Finansman A.Ş.	113.572	94.768
Yapı ve Kredi Bankası A.Ş.	57.716	22.495
	171.288	117.263

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

j) Interest income:

	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş.	10.484	4.760

k) Dividend income:

	31 December 2017	31 December 2016
Otokar Otomotiv ve Savunma Sanayi A.Ş.	351	422

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NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

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

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 31 December 2017 is TL 33.611 (31 December 2016: TL 25.918). TL 2.390 of this amount is related to payments made to the key management personnel as a part of their leaving, the remaining balance is composed of short-term benefits.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

31 December 2017

	TL (Functional currency)	USD	Euro	GBP
1. Trade receivables	1.667.304	32.001	342.509	-
2. Monetary financials assets (including cash and cash equivalents)	1.043.634	40.104	197.508	102
3. Other	215.695	7.702	41.334	-
4. Current assets (1 + 2 + 3)	2.926.633	79.807	581.351	102
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	2.926.633	79.807	581.351	102
8. Trade payables	964.733	25.331	190.882	1.429
9. Financial liabilities (*)	1.783.879	40.000	361.644	-
10. Other monetary liabilities	5.256	-	651	456
11. Short term liabilities (8 + 9 + 10)	2.753.868	65.331	553.177	1.885
12. Financial liabilities (*)	1.820.166	-	403.093	-
13. Other	102.204	-	22.634	-
14. Long term liabilities (12+13)	1.922.370	-	425.727	-
15. Total liabilities (11 + 14)	4.676.238	65.331	978.904	1.885
16. Net foreign currency (liabilities) / assets position (7 - 15)	(1.749.605)	14.476	(397.553)	(1.783)
17. Net monetary foreign currency (liabilities) / assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(1.863.096)	6.774	(416.253)	(1.783)

(*) The Company's net foreign exchange position is mainly due to long - term Euro denominated loans obtained to fund its investments. The Company is hedging for the foreign currency exchange risk arising from its Euro denominated long-term loans with export agreements signed with Ford Motor Company. The TL equivalent of such loans amount to TL 1.862.921 as of 31 December 2017 (31 December 2016 TL 2.082.685).

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

(Amounts expressed in thousands of 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	958.509	22.468	237.052	-
2. Monetary financials assets (including cash and cash equivalents)	752.258	40.114	164.708	9
3. Other	210.843	6.878	50.308	-
4. Current assets (1 + 2 + 3)	1.921.610	69.460	452.068	9
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	1.921.610	69.460	452.068	9
8. Trade payables	820.276	27.858	193.505	1.008
9. Financial liabilities (*)	1.348.274	40.000	325.482	-
10. Other monetary liabilities	6.450	386	1.327	39
11. Short term liabilities (8 + 9 + 10)	2.175.000	68.244	520.314	1.047
12. Financial liabilities (*)	1.503.856	-	405.363	-
13. Other	75.619	-	20.383	-
14. Long term liabilities (12+13)	1.579.475	-	425.746	-
15. Total liabilities (11 + 14)	3.754.475	68.244	946.060	1.047
16. Net foreign currency (liabilities) / assets position (7 - 15)	(1.832.865)	1.216	(493.992)	(1.038)
17. Net monetary foreign currency (liabilities) / assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(1.968.089)	(5.662)	(523.917)	(1.038)

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

(Amounts expressed in thousands of 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 Euro and partly against USD. The foreign exchange risk of the Company arises from long-term Euro investments.

31 December 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)	5.460	(5.460)
USD net hedged amount	-	-
USD net- gain / (loss)	5.460	(5.460)
Change in Euro against TL		
Euro net (liabilities) / assets	(179.515)	179.515
Euro net hedged amount	186.292	(186.292)
Euro net- gain / (loss)	6.777	(6.777)
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities) / assets	(906)	906
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss) / gain	(906)	906

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)	428	(428)
USD net hedged amount	-	-
USD net- gain / (loss)	428	(428)
Change in Euro against TL		
Euro net (liabilities) / assets	(183.266)	183.266
Euro net hedged amount	208.268	(208.268)
Euro net- gain / (loss)	25.002	(25.002)
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities) / assets	(448)	448
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss) / gain	(448)	448

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of 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 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total export amount	17.830.091	12.286.677
Total import amount	11.791.955	8.208.716

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

Interest rate risk

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

	31 December 2017	31 December 2016
Fixed interest rate financial instruments		
Financial assets	1.764.533	1.157.076
Financial liabilities	1.885.646	1.617.170

Floating interest rate financial instruments

Financial liabilities	1.718.401	1.234.960
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If the interest rates of floating interest-bearing Euro denominated borrowings were 100 basis points higher / lower with all other variables held constant, profit before tax for the year would have been lower / higher by TL 2.495 at 31 December 2017 (31 December 2016: TL 2.470) due to higher / lower interest expense.

FORD OTOMOTİV SANAYİ A.Ş.**NOTES TO FINANCIAL STATEMENTS****FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017**

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

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)***Liquidity risk***

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

31 December 2017	Book value	Total contractual cash outflow	Up to 3 months	Between 3-12 months	Between 1-5 years	Longer than 5 years
Non-derivative financial instruments						
Financial liabilities	3.604.047	3.702.568	485.287	1.310.866	1.830.415	76.000
Trade payables						
-Related party	895.559	896.585	896.585	-	-	-
-Other	2.921.390	2.941.886	2.941.886	-	-	-
Other liabilities						
- Related party	31.438	31.438	31.438	-	-	-
- Other	56.385	56.385	56.385	-	-	-
Derivative financial liabilities						
Derivative financial instruments	187	187	-	-	187	-

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(Amounts expressed in thousands of 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	2.852.130	2.927.145	401.094	954.750	1.540.259	31.042
Trade payables						
- Related party	794.183	794.717	794.717	-	-	-
-Other	1.823.160	1.832.582	1.832.582	-	-	-
Other liabilities						
- Related party	18.763	18.763	18.763	-	-	-
-Other	76.129	76.129	76.129	-	-	-

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of 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 31 December 2017 and December, 31 2016, the Company's hierarchy table for its assets and liabilities recorded at fair value are as follows:

31 December 2017

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	4.531	-
Financial asset available-for-sale - Otokar	17.406	-	-
Total assets	17.406	4.531	-
Liabilities at fair value			
Derivative financial liabilities	-	187	-
Total liabilities	-	187	-

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

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

31 December 2016

	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	-	-
Financial asset available-for-sale - Otokar	18.756	-	-
Total assets	18.756	-	-
Liabilities at fair value			
Derivative financial liabilities	-	-	-
Total liabilities	-	-	-

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

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

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 28 - DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company hedged the interest rate risk arising from cash flows related to the borrowing used as of 31 December 2017 with the maturity of 3 November 2019 amounting to Euro 51.428.571 with interest rate swapping. The critical conditions of the settlement contract such as maturity, payment, interest rate change dates are in line with the critical conditions of the foreign currency borrowing, which is the subject of financial hedge as of 31 December 2017. The fair value of the interest rate swap transaction calculated as of 31 December 2017 is TL 187 and it is classified as long - term liabilities.

Derivative financial instruments:

	31 December 2017	31 December 2016
Derivative financial liabilities	187	-
	187	-

In order to hedge the foreign exchange risk arising from the repayment of some its Euro denominated loans, which will mature in January 2018, the Company entered in to forward foreign exchange transactions in the same amount of its loans. The fair value of the foreign currency forward transaction calculated as of 31 December 2017 is TL 4.531 and classified under current assets in the balance sheet.

	31 December 2017	31 December 2016
Derivative financial assets	4.531	-
	4.531	-

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

	31 December 2017	31 December 2016
Cash flow hedge reserve:		
Amount recognized in other comprehensive income	392.450	303.001
Amount recycled from other comprehensive income to statement of profit or loss	(183.786)	(75.775)
	208.664	227.226

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

NOTE 29 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	31 December 2017	31 December 2016
Income from investing activities		
Dividend income	351	422
Gain on sale of property, plant and equipment	12	-
	363	422

	31 December 2017	31 December 2016
Expense from investing activities		
Loss on sale of property, plant and equipment	(3.407)	(6.263)
	(3.407)	(6.263)

NOTE 30 - DEFERRED REVENUE

	31 December 2017	31 December 2016
Advances received	10.929	8.811
	10.929	8.811

	31 December 2017	31 December 2016
Long term deferred revenue	7.450	4.757
	7.450	4.757

NOTE 31-OTHER NON CURRENT LIABILITIES

	31 December 2017	31 December 2016
Other non-current liabilities (*)	115.631	75.620
	115.631	75.620

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

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NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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

NOTE 32 - GOVERNMENT INCENTIVES AND GRANTS

The Company has completed its New Generation Transit and New Transit Custom factory investment amounting to TL 559.295 which has 30% contribution rate to investment with in the 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 1.194.398 for the investment of its new generation Transit model and a privileged investment incentive certificate amounting to TL 697.394 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 187.379 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 1.194.398 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.

Additionally, the Company has obtained primary investment incentive certificate at an amount of TL 849.160 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 negotiation process of the Collective Labor Agreement between Turkish Metal Industrialists' Union (MESS) of which the Company is a member and the Turkish Metal Union is signed as of 30 January 2018, effective for the period between 1 September 2017 - 31 August 2019.

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.

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