

**FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ**

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

**(ORIGINALLY ISSUED IN TURKISH)**

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**FORD OTOMOTİV SANAYİ A.Ş.**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2018 AND 31 DECEMBER 2017**

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

Notes	Current period unaudited 31 March 2018	Current period unaudited	Previous period audited 31 December 2017
		31 December 2017	
<b>Assets</b>			
<b>Current assets</b>		<b>7.621.252</b>	<b>6.827.040</b>
Cash and cash equivalents	4	2.042.259	1.805.945
Trade receivables			
- Due from related parties	26	1.798.552	2.057.267
- Due from third parties	7	1.148.604	1.299.746
Other receivables			
- Due from third parties	8	995	521
Inventories	9	1.839.965	1.152.490
Prepaid expenses	12	265.549	101.979
Other current assets	16	517.588	404.561
Current tax assets	24	7.740	-
Derivative financial assets	28	-	4.531
<b>Non-current assets</b>		<b>5.289.027</b>	<b>5.184.700</b>
Financial assets	5	16.056	17.406
Trade receivables			
- Due from third parties	7	3.116	3.002
Property, plant and equipment	10	3.530.637	3.536.220
Intangible assets	11	718.480	690.337
Prepaid expenses	12	369.979	311.292
Deferred tax assets	24	650.759	626.443
<b>Total assets</b>		<b>12.910.279</b>	<b>12.011.740</b>

Financial statements for the period ended 1 January - 31 March 2018 were approved for issue by the Board of Directors on 26 April 2018.

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

# FORD OTOMOTİV SANAYİ A.Ş.

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018 AND 31 DECEMBER 2017

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

Notes	Current period unaudited	Previous period audited
	31 March 2018	31 December 2017
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>7.341.785</b>	<b>6.049.677</b>
Short-term borrowings		
- Bank borrowings	6	1.497.249
Short-term portion of long-term borrowings		
- Bank borrowings	6	704.351
Trade payables		
- Due to related parties	26	1.096.004
- Due to third parties	7	2.864.854
Other payables		
- Due to related parties	26	803.520
- Due to third parties	8	83.336
Deferred revenue	30	11.017
Short-term provisions		
- Other provisions	13	163.380
Employee benefit liabilities	15	118.074
Current tax liabilities	24	-
		6.390
<b>Non-current liabilities</b>	<b>2.341.110</b>	<b>2.266.204</b>
Long-term borrowings		
- Bank borrowings	6	1.866.027
Long-term provisions		
- Provision for employment termination benefits	15	175.264
- Other provisions	13	172.638
Deferred revenue	30	5.992
Other non-current liabilities	31	120.951
Derivative financial liabilities	28	238
		115.631
		187
<b>Equity</b>	<b>17</b>	<b>3.227.384</b>
		<b>3.695.859</b>
Paid-in capital		350.910
Inflation adjustments on capital		27.920
Share premium		8
Other comprehensive income/(loss)		
not to be reclassified under profit or loss		
- Losses on remeasurements of defined benefit plans		(15.403)
		(14.001)
Other comprehensive income/(loss)		
to be reclassified in profit or loss		
- Gains from financial assets measured at fair value through other comprehensive income		14.325
		15.608
- Losses on cash flow hedges		(601.100)
		(503.120)
Restricted reserves		332.657
Retained earnings		2.685.802
Net profit for the period		432.265
		2.074.147
		1.489.983
<b>Total liabilities and equity</b>	<b>12.910.279</b>	<b>12.011.740</b>

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

**FORD OTOMOTİV SANAYİ A.Ş.**

**STATEMENT OF PROFIT OR LOSS FOR THE PERIODS  
ENDED 31 MARCH 2018 AND 2017**

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

	Notes	Current period unaudited 1 January- 31 March 2018	Previous period unaudited 1 January- 31 March 2017
<b>Continuing operations</b>			
Revenue	18	7.282.010	5.394.877
Cost of sales	18	(6.524.689)	(4.842.567)
<b>Gross profit</b>		<b>757.321</b>	<b>552.310</b>
Marketing expenses	19	(118.113)	(105.583)
General administrative expenses	19	(74.953)	(52.554)
Research and development expenses	19	(98.580)	(75.083)
Other income from operating activities	21	148.573	91.546
Other expenses from operating activities	21	(100.886)	(80.403)
<b>Profit from operating activities</b>		<b>513.362</b>	<b>330.233</b>
Income from investing activities	29	410	364
Expenses from investing activities	29	(1.480)	-
<b>Operating income before financial income / (expense)</b>		<b>512.292</b>	<b>330.597</b>
Financial income	22	106.305	82.396
Financial expenses	23	(177.245)	(132.907)
<b>Profit from continuing operations before tax</b>		<b>441.352</b>	<b>280.086</b>
<b>Tax income / (expense) from continuing operations</b>		<b>(9.087)</b>	<b>(7.818)</b>
Current tax expenses	24	(5.381)	(4.145)
Deferred tax expenses	24	(3.706)	(3.673)
<b>Net profit</b>		<b>432.265</b>	<b>272.268</b>
<b>Earnings per share with a nominal value Kr</b>		<b>25</b>	<b>1,23 Kr</b>
			<b>0,78 Kr</b>

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

**FORD OTOMOTİV SANAYİ A.Ş.**

**STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIODS  
ENDED 31 MARCH 2018 AND 2017**

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

	Notes	Current period unaudited 1 January- 31 March 2018	Previous period unaudited 1 January- 31 March 2017
<b>Net profit</b>		<b>432.265</b>	<b>272.268</b>
<b>Other comprehensive income</b>			
<b>Other comprehensive income not to be reclassified to profit or loss</b>			
Gains / (losses) on remeasurements of defined benefit plans	17	(1.753)	(2.064)
<b>Other comprehensive income tax not to be reclassified to profit or loss</b>			
Taxes relating to remeasurements of defined benefit plans	17	351	413
<b>Other comprehensive income to be reclassified to profit or loss</b>			
(Losses) / gains from financial assets measured at fair value through other comprehensive income	17	(1.351)	(2.081)
(Losses) /gains on cash flow hedges	17	(125.583)	(73.371)
<b>Other comprehensive income taxes to be reclassified to profit or loss</b>			
Taxes relating to gains / (losses) from financial assets measured at fair value through other comprehensive income	17	68	104
Taxes relating to cash flow hedges	17	27.603	14.674
<b>Other comprehensive (loss) / income</b>		<b>(100.665)</b>	<b>(62.325)</b>
<b>Total comprehensive income</b>		<b>331.600</b>	<b>209.943</b>

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

# FORD OTOMOTİV SANAYİ A.Ş.

## STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS 31 MARCH 2018 AND 2017

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

	Paid-in capital	Inflation adjustments on capital	Share premium	Other comprehensive income		Other comprehensive income not to be reclassified		Restricted reserves	Retained earnings		Total equity
				income reclassified in profit or loss	Gain/(losses) from financial assets measured at fair value through other comprehensive income	Cash flow hedge reserve	Gains/(losses) on remeasurements of defined benefit plans		Accumulated profit	Net profit	
<b>Balances at 1 January 2017</b>	<b>350.910</b>	<b>27.920</b>	<b>8</b>	<b>16.890</b>	<b>(336.189)</b>	<b>(14.019)</b>	<b>284.207</b>	<b>1.878.584</b>	<b>955.308</b>	<b>3.163.619</b>	
Profit for the period	-	-	-	-	-	-	-	-	-	272.268	272.268
Other comprehensive income/(loss)	-	-	-	(1.977)	(58.697)	(1.651)	-	-	-	-	(62.325)
Total comprehensive income	-	-	-	(1.977)	(58.697)	(1.651)	-	-	-	272.268	209.943
Transfers	-	-	-	-	-	-	-	38.249	917.059	(955.308)	-
Dividends paid (Note 17)	-	-	-	-	-	-	-	-	(400.037)	-	(400.037)
<b>Balances at 31 March 2017</b>	<b>350.910</b>	<b>27.920</b>	<b>8</b>	<b>14.913</b>	<b>(394.886)</b>	<b>(15.670)</b>	<b>322.456</b>	<b>2.395.606</b>	<b>272.268</b>	<b>2.973.525</b>	
<b>Balances at 1 January 2018</b>	<b>350.910</b>	<b>27.920</b>	<b>8</b>	<b>15.608</b>	<b>(503.120)</b>	<b>(14.001)</b>	<b>254.404</b>	<b>2.074.147</b>	<b>1.489.983</b>	<b>3.695.859</b>	
Profit for the period	-	-	-	-	-	-	-	-	-	432.265	432.265
Other comprehensive income/(loss)	-	-	-	(1.283)	(97.980)	(1.402)	-	-	-	-	(100.665)
Total comprehensive income	-	-	-	(1.283)	(97.980)	(1.402)	-	-	-	432.265	331.600
Transfers	-	-	-	-	-	-	-	78.253	1.411.730	(1.489.983)	-
Dividends paid (Note 17)	-	-	-	-	-	-	-	-	(800.075)	-	(800.075)
<b>Balances at 31 March 2018</b>	<b>350.910</b>	<b>27.920</b>	<b>8</b>	<b>14.325</b>	<b>(601.100)</b>	<b>(15.403)</b>	<b>332.657</b>	<b>2.685.802</b>	<b>432.265</b>	<b>3.227.384</b>	

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

# FORD OTOMOTİV SANAYİ A.Ş.

## STATEMENT OF CASH FLOWS

### FOR THE PERIODS ENDED 31 MARCH 2018 AND 2017

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

	Notes	Current period unaudited 31 March 2018	Previous period unaudited 31 March 2017
<b>Cash flows generated from / (used in) operating activities:</b>		<b>241.963</b>	<b>254.584</b>
Net profit for the period		432.265	272.268
<b>Adjustments to reconcile profit or loss:</b>		<b>289.642</b>	<b>216.365</b>
Adjustments for depreciation and amortisation expense	10,11	128.162	117.975
Adjustments for impairment loss of inventories	9	463	250
Adjustments for provisions related with employee benefits		(41.280)	(3.075)
Adjustments for lawsuit and/or penalty provisions	13	3.687	1.567
Adjustments for warranty provisions	13	25.042	22.671
Adjustments for other provisions		5.256	(5.410)
Adjustments for dividend income	29	(410)	(351)
Adjustments for interest income	22	(20.032)	(12.692)
Adjustments for interest expense	23	10.994	10.967
Adjustments for tax expenses	24	9.087	7.818
Adjustments for unearned financing income	21	(40.348)	(22.887)
Adjustments for deferred financing expense	21	65.337	32.369
Adjustments for gain / (loss) on sales of property, plant and equipment	29	1.480	(13)
Other adjustments for which cash effects are investing or financing cash flow		142.204	67.176
<b>Changes in working capital</b>		<b>(396.268)</b>	<b>(171.829)</b>
(Increase) / decrease in trade receivable		415.897	(106.763)
(Increase) / decrease in inventories		(687.938)	(145.583)
(Increase) / decrease in prepaid expenses		(163.570)	(76.986)
Increase / (decrease) in trade payable		145.354	209.266
(Increase) / decrease in other assets		(108.919)	(86.157)
Increase / (decrease) in other payables		2.908	34.394
<b>Cash flows generated from / (used in) operations</b>		<b>325.639</b>	<b>316.804</b>
Interest paid		(71.491)	(35.735)
Interest received		38.903	19.631
Payments related with provisions for employee benefits	15	(4.711)	(3.494)
Payments related with other provisions		(26.866)	(22.208)
Taxes paid		(19.511)	(20.414)
<b>Cash flows used in investing activities</b>		<b>(207.157)</b>	<b>(157.121)</b>
Proceeds from sales of property, plant and equipment		1.579	399
Purchase of property, plant and equipment		(102.453)	(55.988)
Purchase of intangible assets		(48.006)	(41.446)
Cash advances given		(58.687)	(60.437)
Dividends received		410	351
<b>Cash flows provided by financing activities</b>		<b>200.543</b>	<b>75.606</b>
Proceeds from borrowings		766.004	504.859
Repayment of borrowings		(570.212)	(427.396)
Interest paid		(14.316)	(12.955)
Interest received		19.067	11.098
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>235.349</b>	<b>173.069</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1.802.917</b>	<b>1.188.540</b>
<b>Cash and cash equivalents at the end of the period</b>	4	<b>2.038.266</b>	<b>1.361.609</b>

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 MARCH 2018**

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

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#### **NOTE 1 - ORGANIZATION AND NATURE OF THE OPERATIONS**

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

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

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

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

	<b>Average</b>		<b>Period End</b>	
	<b>2018 March</b>	<b>2017 March</b>	<b>2018 March</b>	<b>2017 December</b>
Blue collar	8.614	7.581	8.514	8.847
White collar	2.625	2.687	2.619	2.654
<b>Total</b>	<b>11.239</b>	<b>10.268</b>	<b>11.133</b>	<b>11.501</b>

Research and development operations which are also subject to service export is conducted with 1.133 employees in Sancaktepe branch, conducted with 240 employees in R&D center in Kocaeli plant, and conducted with 113 employees in R&D center in Eskişehir İnönü plant, totally 1.486 employees as of 31 March 2018 (31 December 2017: 1.508).

#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

##### **2.1 Basis of presentation**

###### **Financial reporting standards**

The Company maintains its legal books of account and prepares 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 MARCH 2018**

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

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### **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 March 2018 has been provided with the comparative financial information of 31 December 2017 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the period between 1 January and 31 March 2018 have been provided with the comparative financial information, for the period between 1 January 2017 and 31 March 2017.

#### **2.2 Amendments and interpretations in the standards**

##### **The new standards, amendments and interpretations**

The Company has applied the new and revised standards and interpretations issued by the KGK as of 1 January 2018 and related to its own activity.

- (a) The new standards, amendments and interpretations which are effective as at 31 March 2018 are as follows:
  - IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
  - IFRS 15, 'Revenue from contracts with customers'; Effective for annual reporting periods beginning on or after 1 January 2018. The compliance effort with Accepted Accounting Standards in the United States was intended to provide financial reporting of the resulting new standard revenue and comparability of the total income of the financial statements on a worldwide basis.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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)

- Amendment to IFRS 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- Amendments to IFRS 4, "Insurance contracts" regarding the implementation of IFRS 4, '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.
- 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.
- 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 venture' regarding measuring an associate or joint venture at fair value.
- 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.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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)

(b) The following new standards, interpretations and amendments have been issued as of 31 March 2018, 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.

- Amendment to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- Amendment to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
- IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts) lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 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. Right of use assets will be amortized during the rent period, liability arising from the right of use assets will be carried at its amortized cost. Moreover, amortization expense, interest expense and foreign exchange income/expense will be recognized in the consolidated statement of income instead of rent expenses.
- IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

(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)**

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

- 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.
- Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
  - IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
  - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

#### **2.3 Summary of significant accounting policies**

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

##### **Cash and cash equivalents**

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

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

#### **2.3 Summary of significant accounting policies (Continued)**

##### **Trade receivables, impairment and expected credit losses**

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

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

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

The Company, where trade receivables are not impaired for some reason (except for realized impairment losses), measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

The Company uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

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.

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

#### **2.3 Summary of significant accounting policies (Continued)**

Idle time expenses arising from the ceases in production other than planned in the factory's annual production plan are not associated with inventories and are recognized as cost of sales (Note 9).

#### **Trade payables**

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

#### **Property, plant and equipment**

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

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

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

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

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

#### **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

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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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).

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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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.

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.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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)

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

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

#### *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 / EUR	TL / GBP
<b>31 March 2018</b>	<b>3,9489</b>	<b>4,8673</b>	<b>5,5385</b>
31 December 2017	3,7719	4,5155	5,0803
31 March 2017	3,6386	3,9083	4,5169

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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)

##### 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.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 March 2018	31 December 2017
Net financial debt	2.025.368	1.798.102
Tangible equity	2.508.904	3.005.522
<b>Net financial debt/tangible equity ratio</b>	<b>0,81</b>	<b>0,60</b>

##### **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:

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

#### 2.3 Summary of significant accounting policies (Continued)

- 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.

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.

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

#### **2.3 Summary of significant accounting policies (Continued)**

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.

##### **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.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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

#### 2.3 Summary of significant accounting policies (Continued)

##### *Provisions for sales premium*

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

##### *Warranty expenses provision*

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

#### **Research and development expenses**

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

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

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

#### **Leasing - the Company as the lessee**

##### *Operating leases*

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

#### **Leasing - the Company as 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.

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

#### **2.3 Summary of significant accounting policies (Continued)**

##### **Related parties**

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

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

If that person,

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

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

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

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

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

##### **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).

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

#### **2.3 Summary of significant accounting policies (Continued)**

##### **Reporting of cash flows**

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

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

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

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

##### **Contingent assets and liabilities**

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

##### **Subsequent events**

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

##### **Offsetting**

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

##### **Government grants and incentives**

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

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

#### **2.4 Accounting policies, changes in accounting estimates and errors**

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

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

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

##### **2.4.1 TFRS 15 "Revenue From Contracts with Customers"**

###### **Revenue recognition**

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

- Identify the contact with customers
- Identify separate performance obligations in the contract
- Determine the transaction price in contract
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue

The Company assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

For each performance obligation identified, the entity determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Company transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time.

The Company recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

The Company considers the following in the assessment of transfer of control of goods sold and services,

- a) The entity has a right to payment for the goods or service,
- b) The customer has legal title to the goods or service,
- c) The entity has transferred physical possession of the asset,
- d) The customer has the significant risks and rewards related to the ownership of the goods or services,
- e) The customer has accepted the goods or services.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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

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

The Company does not adjust the promised amount of consideration for the effects of a significant financing component since the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

If the financing component is significant in revenue, future collections are discounted by the interest rate in financing component. The difference is recognised as income from operating activities in current period.

##### *First time adoption of TFRS 15 "Revenue From Contracts with Customers"*

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

#### 2.4.2 TFRS 9 "Financial Instruments"

##### *Classification and measurement*

The Company classifies the financial assets as three groups such as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is made on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

"*Financial assets measured at amortised cost*", are the financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, not have an active market and non derivative financial assets. "Cash and cash equivalents", "trade receivables" are classified as financial assets measured at amortised cost. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Gains and losses recognised as a result of the fair value adjustments of financial assets amortised at cost and non derivative financial assets are included in the income statement.

"*Financial assets measured at fair value through other comprehensive income*" consist of the financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Any gains or losses arising from the related financial assets are recognized in other comprehensive income except for impairment losses, gains or losses and exchange rate differences income or expenses. In the case of the sale of assets, the valuation differences classified as other comprehensive income are classified as retained earnings.

For investments made on equity-based financial assets, the Company may inadvertently choose the method of reflecting subsequent comprehensive changes in fair value to other comprehensive income during the first financial statement purchase. If such preference is made, it is accounted in the table of dividend income obtained from related investments.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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

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

"*Financial assets measured at fair value through profit or loss*" are consist of assets except for the assets measured at amortised cost and at fair value through other comprehensive income Any gain or loss arising from fair value is recognised in income statement.

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

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

  

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

#### *Impairment*

The recognition of credit losses defined in TMS 39 "Financial Instruments:Recognition and Measurement" which was effective before 1 january 2018 is replaced by recognition of expected credit losses. The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

#### *Trade receivables*

The Company has chosen "practical expedient" explained in TFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortised cost. Accordingly, the Company measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Company uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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

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

##### *First time adoption of TFRS 9 "Financial assets"*

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

#### 2.5 Significant accounting estimates and decisions

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

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

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 3 - SEGMENT REPORTING

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

### NOTE 4 - CASH AND CASH EQUIVALENTS

The maturity period of time deposits is up to three months and there is no blockage/restriction on cash and cash equivalents. The weighted average interest rate for Euro denominated time deposits is 2,02% (31 December 2017: 2,24%) and the weighted average interest rate for the TL time deposits is 14,70%, (31 December 2017: 14,91%).

	31 March 2018	31 December 2017
Banks - foreign currency time deposits	1.262.468	1.039.955
Banks - TL time deposits	717.309	724.578
Banks - TL demand deposits	57.355	35.399
Banks - foreign currency demand deposits	1.134	2.985
<b>Cash and cash equivalents in the cash flow statement</b>	<b>2.038.266</b>	<b>1.802.917</b>
Interest income accrual	3.993	3.028
	<b>2.042.259</b>	<b>1.805.945</b>

### NOTE 5 - FINANCIAL ASSETS

	<u>31 March 2018</u>		<u>31 December 2017</u>	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
<b>Financial assets measured at fair value through other comprehensive income:</b>				
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0,59	16.056	0,59	17.406
		<b>16.056</b>		<b>17.406</b>

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

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 6 - FINANCIAL LIABILITIES

#### Short-term borrowings:

	<b>31 March 2018</b>	<b>31 December 2017</b>		
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	0,76	1.339.294	0,84	910.746
- USD	2,41	157.955	2,41	150.875
<b>1.497.249</b>				<b>1.061.621</b>

#### Short-term portion of long-term borrowings:

- Euro	1,74	704.351	1,80	722.259
<b>704.351</b>				<b>722.259</b>
<b>Total short-term borrowings</b>		<b>2.201.600</b>		<b>1.783.880</b>

#### Long-term borrowings:

	<b>31 March 2018</b>	<b>31 December 2017</b>		
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	1,64	1.866.027	1,62	1.820.167
<b>1.866.027</b>				<b>1.820.167</b>

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

Payment period	<b>31 March 2018</b>	<b>31 December 2017</b>
	Total TL	Total TL
2019	517.050	551.302
2020	529.436	489.827
2021	374.561	366.299
2022	201.615	186.965
2023	162.243	150.517
2024	81.122	75.257
	<b>1.866.027</b>	<b>1.820.167</b>

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TL 1.799.101 (31 December 2017: TL 1.432.410) (Note 13).

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

	<b>2018</b>	<b>2017</b>
1 January	3.604.047	2.852.130
Effect of cash flows	195.792	77.463
Unrealised foreign exchange differences	267.788	140.547
<b>31 March</b>	<b>4.067.627</b>	<b>3.070.140</b>

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**  
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**NOTE 7 - TRADE RECEIVABLES AND PAYABLES**

**31 March 2018 31 December 2017**

**Short - term trade receivables:**

Trade receivables	1.163.876	1.317.031
Doubtful receivables	4.533	4.533
Less: Unearned credit finance income	(15.272)	(17.285)
	<b>1.153.137</b>	<b>1.304.279</b>
Less: Provision for doubtful receivables	(4.533)	(4.533)
	<b>1.148.604</b>	<b>1.299.746</b>

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2017: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2017: 70 days) and discounted by 1,30% monthly effective interest rate (31 December 2017: 1,32%).

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

**31 March 2018 31 December 2017**

**Long - term trade receivables:**

Deposits and guarantees given	3.116	3.002
	<b>3.116</b>	<b>3.002</b>

**31 March 2018 31 December 2017**

**Trade payables:**

Trade payables	2.886.813	2.941.886
Less: Unearned credit finance expense	(21.959)	(20.496)
	<b>2.864.854</b>	<b>2.921.390</b>

The average turnover of trade payables is 60 days (31 December 2017: 60 days) and discounted by 1,30% monthly effective interest rate (31 December 2017: 1,32%).

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

(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 March 2018 and 31 December 2017 is as follows:

<b>31 March 2018</b>	<b>Trade receivables</b>		<b>Other receivables</b>		<b>Deposit in bank</b>
	<b>Related party</b>	<b>Other</b>	<b>Related party</b>	<b>Other</b>	
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	1.798.552	1.148.604	-	995	2.038.266
- The maximum of credit risk covered by guarantees	225.000	1.147.450	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	1.715.487	1.147.023	-	995	2.038.266
Net book value of financial assets that are overdue but not impaired	83.065	1.581	-	-	-
- Amount of risk covered by guarantees	-	427	-	-	-
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 MARCH 2018**

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

**NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)**

<b>31 December 2017</b>	<b>Trade receivables</b>		<b>Other receivables</b>		<b>Deposit in bank</b>
	<b>Related party</b>	<b>Other</b>	<b>Related party</b>	<b>Other</b>	
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
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 MARCH 2018

(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 March 2018	Trade receivables	
	Related party	Other
1-30 days overdue	55.682	987
1-3 months overdue	14.937	553
3-12 months overdue	11.987	18
1-5 years overdue	459	23
	<b>83.065</b>	<b>1.581</b>
Risk covered by guarantees	-	427

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 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
	<b>46.889</b>	<b>1.048</b>
Risk covered by guarantees	-	258

### NOTE 8 - OTHER RECEIVABLES AND PAYABLES

	31 March 2018	31 December 2017
<b>Other receivables</b>		
Other miscellaneous receivables	995	521
	<b>995</b>	<b>521</b>
<b>Other payables</b>		
Taxes and funds payable	42.225	42.234
Marketing expense and other expense accruals	20.485	-
Donation provisions	8.686	-
Sales premium accruals	5.249	8.359
Other	6.691	5.792
	<b>83.336</b>	<b>56.385</b>

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**  
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**NOTE 9 - INVENTORIES**

	<b>31 March 2018</b>	<b>31 December 2017</b>
Raw materials	405.742	410.330
Finished goods	541.691	214.519
Goods in transit	277.220	189.613
Import vehicles	329.076	114.479
Vehicle spare parts	214.656	169.971
Spare parts	32.180	25.014
Other	43.769	32.470
	<b>1.844.334</b>	<b>1.156.396</b>
Less: Provision for impairment of finished goods and vehicle spare parts	(4.369)	(3.906)
	<b>1.839.965</b>	<b>1.152.490</b>

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:

	<b>2018</b>	<b>2017</b>
<b>1 January</b>	<b>3.906</b>	<b>5.232</b>
Change within the period	463	250
<b>31 March</b>	<b>4.369</b>	<b>5.482</b>

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 MARCH 2018

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

### NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

1 January 2018	Land	Land improvements	Buildings	Machine & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Construction in progress	Total
Cost	12.269	163.711	977.033	2.600.505	2.386.432	407.829	123.031	114.972	6.785.782
Accumulated depreciation	-	(77.166)	(401.565)	(1.270.803)	(1.226.214)	(251.898)	(21.916)	-	(3.249.562)
<b>Net book value</b>	<b>12.269</b>	<b>86.545</b>	<b>575.468</b>	<b>1.329.702</b>	<b>1.160.218</b>	<b>155.931</b>	<b>101.115</b>	<b>114.972</b>	<b>3.536.220</b>
<b>For the period ended 31 March 2018</b>									
Opening net book value	12.269	86.545	575.468	1.329.702	1.160.218	155.931	101.115	114.972	3.536.220
Additions	-	507	1.361	15.163	60.058	9.540	36	19.110	105.775
Transfers	-	12.801	1.660	9.361	6.199	1.738	-	(31.759)	-
Disposals	-	-	(767)	(4.271)	(3.098)	(343)	(1.529)	-	(10.008)
Depreciation charge	-	(1.535)	(7.972)	(38.851)	(51.389)	(8.054)	(498)	-	(108.299)
Disposals from accumulated depreciation	-	-	767	4.044	1.385	310	443	-	6.949
<b>Closing net book value</b>	<b>12.269</b>	<b>98.318</b>	<b>570.517</b>	<b>1.315.148</b>	<b>1.173.373</b>	<b>159.122</b>	<b>99.567</b>	<b>102.323</b>	<b>3.530.637</b>
<b>31 March 2018</b>									
Cost	12.269	177.019	979.287	2.620.758	2.449.591	418.764	121.538	102.323	6.881.549
Accumulated depreciation	-	(78.701)	(408.770)	(1.305.610)	(1.276.218)	(259.642)	(21.971)	-	(3.350.912)
<b>Net book value</b>	<b>12.269</b>	<b>98.318</b>	<b>570.517</b>	<b>1.315.148</b>	<b>1.173.373</b>	<b>159.122</b>	<b>99.567</b>	<b>102.323</b>	<b>3.530.637</b>

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 3.322 (31 December 2017: TL 9.857) has been recognized under property, plant and equipment according to the cumulative approach within the context of TMS 23 as of 31 March 2018.

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

(\*) The Company makes a part of its truck sales with buyback commitment and trucks sold in this scope are monitored in "Vehicles" under Property, Plant and Equipment and their cost value amounts to TL 102.612 (31 December 2017: TL 103.636).

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

**NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>1 January 2017</b>	<b>Land</b>	<b>Land improvements</b>	<b>Buildings</b>	<b>Machine &amp; equipment</b>	<b>Models &amp; moulds</b>	<b>Fixture &amp; furniture</b>	<b>Vehicles (*)</b>	<b>Construction in progress</b>	<b>Total</b>
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)
<b>Net book value</b>	<b>12.269</b>	<b>84.004</b>	<b>567.764</b>	<b>1.261.408</b>	<b>1.043.828</b>	<b>162.850</b>	<b>76.942</b>	<b>93.680</b>	<b>3.302.745</b>
<b>For the period ended 31 March 2017</b>									
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	-	3.611	1.075	16.903	14.555	3.261	134	18.436	57.975
Transfers	-	-	-	-	-	-	5.133	(5.133)	-
Disposals	-	-	-	(260)	-	(40)	(596)	-	(896)
Depreciation charge	-	(1.421)	(7.962)	(35.681)	(43.006)	(8.211)	(2.433)	-	(98.714)
Disposals from accumulated depreciation	-	-	-	259	-	25	226	-	510
<b>Closing net book value</b>	<b>12.269</b>	<b>86.194</b>	<b>560.877</b>	<b>1.242.629</b>	<b>1.015.377</b>	<b>157.885</b>	<b>79.406</b>	<b>106.983</b>	<b>3.261.620</b>
<b>31 March 2017</b>									
Cost	12.269	158.928	939.670	2.423.118	2.111.756	385.944	95.821	106.983	6.234.489
Accumulated depreciation	-	(72.734)	(378.793)	(1.180.489)	(1.096.379)	(228.059)	(16.415)	-	(2.972.869)
<b>Net book value</b>	<b>12.269</b>	<b>86.194</b>	<b>560.877</b>	<b>1.242.629</b>	<b>1.015.377</b>	<b>157.885</b>	<b>79.406</b>	<b>106.983</b>	<b>3.261.620</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 March 2018 and 2017 is as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
Cost of production (Note 18)	100.303	91.815
Research and development expenses (Note 19)	4.390	3.943
General administrative expenses (Note 19)	2.159	1.992
Marketing expenses (Note 19)	777	730
Associated with construction in progress	670	234
	<b>108.299</b>	<b>98.714</b>

### NOTE 11 - INTANGIBLE ASSETS

<b>1 January 2018</b>	<b>Rights</b>	<b>Development cost</b>	<b>Development cost in progress</b>	<b>Other</b>	<b>Total</b>
Cost	55.093	652.389	330.166	7.556	1.045.204
Accumulated amortisation	(45.405)	(303.302)	-	(6.160)	(354.867)
<b>Net book value</b>	<b>9.688</b>	<b>349.087</b>	<b>330.166</b>	<b>1.396</b>	<b>690.337</b>
<b>For the period ended 31 March 2018</b>					
Opening net book value	9.688	349.087	330.166	1.396	690.337
Additions	2.804	45.172	-	30	48.006
Transfers	-	264.136	(264.136)	-	-
Amortisation charge	(2.845)	(16.944)	-	(74)	(19.863)
<b>Closing net book value</b>	<b>9.647</b>	<b>641.451</b>	<b>66.030</b>	<b>1.352</b>	<b>718.480</b>
<b>31 March 2018</b>					
Cost	57.897	961.697	66.030	7.586	1.093.210
Accumulated amortisation	(48.250)	(320.246)	-	(6.234)	(374.730)
<b>Net book value</b>	<b>9.647</b>	<b>641.451</b>	<b>66.030</b>	<b>1.352</b>	<b>718.480</b>

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

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

#### NOTE 11 - INTANGIBLE ASSETS (Continued)

1 January 2017	Rights	Development cost	Development cost in progress	Other	Total
Cost	40.352	653.879	129.107	6.483	829.821
Accumulated amortisation	(36.497)	(235.286)	-	(5.475)	(277.258)
<b>Net book value</b>	<b>3.855</b>	<b>418.593</b>	<b>129.107</b>	<b>1.008</b>	<b>552.563</b>
<b>For the period ended 31 March 2017</b>					
Opening net book value	3.855	418.593	129.107	1.008	552.563
Additions	801	-	40.645	-	41.446
Disposals	-	-	-	-	-
Amortisation charge	(2.095)	(17.009)	-	(157)	(19.261)
Disposals from accumulated amortisation	-	-	-	-	-
<b>Closing net book value</b>	<b>2.561</b>	<b>401.584</b>	<b>169.752</b>	<b>851</b>	<b>574.748</b>
<b>31 March 2017</b>					
Cost	41.153	653.879	169.752	6.483	871.267
Accumulated amortisation	(38.592)	(252.295)	-	(5.632)	(296.519)
<b>Net book value</b>	<b>2.561</b>	<b>401.584</b>	<b>169.752</b>	<b>851</b>	<b>574.748</b>

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

	31 March 2018	31 March 2017
Cost of production (Note 18)	17.536	17.421
General administrative expenses (Note 19)	1.444	1.038
Research and development expenses (Note 19)	712	691
Marketing expenses (Note 19)	165	75
Associated with construction in progress	6	36
	<b>19.863</b>	<b>19.261</b>

#### NOTE 12 - PREPAID EXPENSES

Short - term prepaid expenses:	31 March 2018	31 December 2017
Advances given for inventories	247.924	86.338
Other prepaid expenses	17.625	15.641
	<b>265.549</b>	<b>101.979</b>
<b>Long - term prepaid expenses:</b>		
Advances given for investments (*)	355.477	300.805
Other prepaid expenses	14.502	10.487
	<b>369.979</b>	<b>311.292</b>

(\*) Advances given for investments are related to the Company's new vehicle investments. TL 284.420 (31 December 2017: TL 244.988) is given to domestic vendors as mould advances and TL 71.057 (31 December 2017: TL 55.817) is given for the new project investments.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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### NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

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

#### Short-term provisions

	31 March 2018	31 December 2017
Warranty expense provision	107.410	108.900
Provisions for sales premium (*)	55.970	50.714
	<b>163.380</b>	<b>159.614</b>

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

#### Long-term provisions

	31 March 2018	31 December 2017
Warranty expense provision	123.690	122.625
Provisions for lawsuits	48.948	46.660
	<b>172.638</b>	<b>169.285</b>

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

	2018	2017
<b>1 January</b>	<b>46.660</b>	<b>39.295</b>
Paid during the period	(1.399)	(831)
Additions during the period	3.687	1.567
<b>31 March</b>	<b>48.948</b>	<b>40.031</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	2018	2017
<b>1 January</b>	<b>231.525</b>	<b>154.387</b>
Paid during the period	(25.467)	(21.377)
Additions during the period (Note 19)	25.042	22.671
<b>31 March</b>	<b>231.100</b>	<b>155.681</b>

Letters of guarantee and letters of credit	31 March 2018	31 December 2017
Letters of guarantee given to financial institutions due to bank loans	1.799.101	1.432.410
Letters of guarantee given to customs	53.264	49.762
Letters of guarantees given to other parties	13.756	14.102
	<b>1.866.121</b>	<b>1.496.274</b>

#### Letters of guarantee given

	31 March 2018		31 December 2017	
	Original currency	TL equivalent	Original currency	TL equivalent
Euro	347.236	1.690.104	293.866	1.326.954
USD	40.013	158.007	40.013	150.925
TL	18.010	18.010	18.395	18.395
	<b>1.866.121</b>		<b>1.496.274</b>	

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

Collaterals, pledges and mortgages given by the Company	31 March 2018	31 December 2017
A. Total amount of collaterals/pledges/mortgages given for its own Legal entity	1.866.121	1.496.274
B. Total amount of collaterals/pledges/mortgages given for participations included in entire consolidation	-	-
C. Total amount of collaterals/pledges/mortgages given to assure debts of third parties, for the purpose of conducting the business activities	-	-
D. Total amount of other collaterals/pledges/mortgages given	-	-
i. Total amount of collaterals/pledges/mortgages given for the parent company	-	-
ii. Total amount of collaterals/pledges/mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals/pledges/mortgages given for third parties that do not fall into C section	-	-
	<b>1.866.121</b>	<b>1.496.274</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

#### Letters of guarantee received

	31 March 2018		31 December 2017	
	Original currency	TL currency	Original currency	TL currency
TL	235.023	235.023	213.657	213.657
Euro	6.075	29.568	13.358	60.318
USD	1.574	6.216	4.602	17.358
		<b>270.807</b>		<b>291.333</b>

#### Other

The long-term bank borrowing agreements related to the investments require the Company to comply with certain financial ratios. Such financial ratios are met by the Company as of 31 March 2018 and 31 December 2017.

### 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 2018, amounting to Euro 40,000,000 with Yapı Kredi and amounting to Euro 60,000,000 with İş Bankası A.Ş., totally Euro 100,000,000, the Company is required to ensure that its export proceeds up to an amount equal to Euro 80,000,000 is transacted through Yapı Kredi and Euro 120,000,000 is transacted through İş Bankası, totalling Euro 200,000,000 for the year 2018.
- b) The Company also committed to Türkiye İhracat Kredi Bankası A.Ş (Eximbank);
  - With 8 months term credit amounting to Euro 105,000,000 used in September 2017 an export amount of Euro 105,000,000,
  - 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 70,000,000 used in January 2018 an export amount of Euro 70,000,000,
  - With 8 months term credit amounting to Euro 70,000,000 used in March 2018 an export amount of Euro 70,000,000.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 are as follows:

	31 March 2018	31 December 2017
Within 1 year	11.743	8.282
Between 1 year to 5 years	19.415	10.053
	<b>31.158</b>	<b>18.335</b>

### NOTE 15 - EMPLOYEE BENEFITS

#### Liabilities for employee benefit obligations:

	31 March 2018	31 December 2017
Salaries and social charges payable	61.083	110.644
Social security premiums payable	43.191	40.402
Withholding income tax payable	10.908	30.298
Other	2.892	2.748
	<b>118.074</b>	<b>184.092</b>

#### Provision for employee benefits:

	31 March 2018	31 December 2017
Provision for employment termination benefits	146.671	131.726
Provision for unused vacation pay liability	28.593	21.758
	<b>175.264</b>	<b>153.484</b>

#### 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 2017: TL 5.001,76).

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

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 March 2018	31 December 2017
Discount rate (%)	11,8	11,8
Expected salary increase rate (%)	6,5	6,5
Net discount rate	4,9	4,9
<b>Turnover rate to estimate the probability of retirement (%)</b>	<b>96,0</b>	<b>96,0</b>

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 (31 December 2017: TL 5.001,76) has been used in the calculations.

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

	2018	2017
<b>1 January</b>	<b>131.726</b>	<b>110.025</b>
Interest cost	3.876	2.962
Current year service cost	14.027	5.079
Paid during the period	(4.711)	(3.494)
Actuarial (gains)/losses	1.753	2.064
<b>31 March</b>	<b>146.671</b>	<b>116.636</b>

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

Sensitivity level	Net discount rate		Turnover rate related to the probability of retirement	
	%0,5 decrease	%0,5 increase	%0,5 decrease	%0,5 increase
Rate (%)	(4,4)	(5,4)	95,5	96,5
Change in provision for employee benefits	7.492	(6.904)	(5.529)	6.066

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 16 - OTHER CURRENT ASSETS

	31 March 2018	31 December 2017
VAT to be deducted (*)	495.656	371.827
Prepaid taxes and withholding	15.916	12.682
Other	6.016	20.052
	<b>517.588</b>	<b>404.561</b>

(\*) VAT to be deducted includes export VAT receivables related to February and March 2018.

### NOTE 17 - EQUITY

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

Shareholders	Share Group	31 March 2018	Shareholders percentage (%)	31 December 2017	Shareholders percentage (%)
Koç Holding A.Ş.	B	134.953	38,46	134.953	38,46
Temel Ticaret ve Yatırım A.Ş.	B	2.356	0,67	2.356	0,67
Ford Motor Company	C	143.997	41,04	143.997	41,04
Vehbi Koç Vakfı	A	3.559	1,01	3.559	1,01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3.259	0,93	3.259	0,93
Other (Publicly Held)	A	62.786	17,89	62.786	17,89
<b>Total</b>		<b>350.910</b>	<b>100</b>	<b>350.910</b>	<b>100</b>
<b>Inflation adjustment to share capital</b>		<b>27.920</b>		<b>27.920</b>	
<b>Inflation adjusted paid in capital</b>		<b>378.830</b>		<b>378.830</b>	

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

There are 35.091.000.000 unit of shares (31 December 2017: 35.091.000.000 unit) with a nominal value of Kr 1 each.

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

In accordance with CMB Financial Reporting Standards, the Company classified the above mentioned reserves under "Restricted reserves", the amount of restricted reserves is TL 332.657 as of 31 March 2018 (31 December 2017 : TL 254.404).

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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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 Ordinary General Assembly Meeting dated as of March 19, 2018, the Company has decided to distribute dividends at the rate of 228% gross (net 193,80), with a total amount of TL 800.075 as full TL 2.28 gross (Kr 193,80 net) for each share with a value of full TL 1. The Company made the dividend payment in April 2018. (In April 2017, 114% of the gross TL 1 share (TL 96,90 Kr) will be TL 400.037 and in November 2017, the full TL 1 share will be TL 1,11 gross (net 94,35 Kr) amounting to TL 389.511; a total of 789.548 TL cash dividend was distributed).

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 March 2018 and 31 December 2017 are as follows:

	<b>31 March 2018</b>	<b>31 December 2017</b>
Issued capital	350.910	350.910
Inflation adjustments on capital	27.920	27.920
Share premium	8	8
Gains from financial assets measured at fair value through other comprehensive income	14.325	15.608
Losses on cash flow hedges	(601.100)	(503.120)
Losses on remeasurements of defined benefit plans	(15.403)	(14.001)
<b><i>Restricted reserves</i></b>	<b>332.657</b>	<b>254.404</b>
- Legal reserves	332.657	254.404
<b><i>Retained earnings</i></b>	<b>2.685.802</b>	<b>2.074.147</b>
- Inflation adjustment to equity	428.301	428.301
- Extraordinary reserves	2.257.501	1.645.846
<b>Net income for the period</b>	<b>432.265</b>	<b>1.489.983</b>
<b>Total equity</b>	<b>3.227.384</b>	<b>3.695.859</b>

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

<b>31 March 2018</b>	<b>Historical values</b>	<b>Adjusted values</b>	<b>Equity inflation adjustment differences</b>
Issued capital	350.910	378.830	27.920
Legal reserves	332.657	391.410	58.753
Extraordinary reserves	2.257.501	2.626.646	369.145
Share premium	8	361	353
Other reserves	-	50	50
	<b>2.941.076</b>	<b>3.397.297</b>	<b>456.221</b>
<b>31 December 2017</b>	<b>Historical values</b>	<b>Adjusted values</b>	<b>Equity inflation adjustment differences</b>
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
	<b>2.251.168</b>	<b>2.707.389</b>	<b>456.221</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 March 2018 and 31 March 2017. As of 31 March 2018, fair value change (negative) amounting to TL (1.283) net of deferred tax, (31 March 2017: TL (1.977)) is shown in statement of comprehensive income.

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

	2018	2017
<b>1 January</b>	<b>(501.513)</b>	<b>(333.318)</b>
(Losses) / gains from financial assets measured at fair value through other comprehensive income	(1.283)	(1.977)
Actuarial gains / (losses)	(1.402)	(1.651)
Losses on cash flow hedges	(97.980)	(58.697)
<b>31 March</b>	<b>(602.178)</b>	<b>(395.643)</b>

### NOTE 18 - REVENUE AND COST OF SALES

	31 March 2018	31 March 2017
Export sales	5.728.030	4.262.191
Domestic sales	1.700.954	1.245.374
Other sales	44.873	25.332
Less: Discounts	(191.847)	(138.020)
	<b>7.282.010</b>	<b>5.394.877</b>

#### Units of vehicle sales:

	31 March 2018			31 March 2017		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	1.154	40.303	41.457	1.202	39.662	40.864
Transit	4.469	30.046	34.515	4.903	26.387	31.290
Transit Courier	6.541	12.290	18.831	5.796	9.342	15.138
Passenger vehicles	5.304	36	5.340	4.561	224	4.785
Cargo	1.262	369	1.631	779	164	943
Ranger	199	24	223	526	14	540
New Transit Connect	233	-	233	427	6	433
	<b>19.162</b>	<b>83.068</b>	<b>102.230</b>	<b>18.194</b>	<b>75.799</b>	<b>93.993</b>

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**  
 (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 March 2018 and 2017 are as follows:

	<b>31 March 2018</b>	<b>31 March 2017</b>
Raw material cost	(5.652.009)	(4.057.943)
Production overhead costs	(360.428)	(261.988)
Depreciation and amortization expenses (Notes 10 and 11)	(117.839)	(109.236)
Changes in finished goods	326.709	58.727
<b>Total production cost</b>	<b>(5.803.567)</b>	<b>(4.370.440)</b>
Cost of trade goods sold	(721.122)	(472.127)
<b>Total cost of sales</b>	<b>(6.524.689)</b>	<b>(4.842.567)</b>

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

	<b>31 March 2018</b>	<b>31 March 2017</b>
<b>Marketing expenses</b>		
Personnel expenses	(25.372)	(20.448)
Warranty expenses (Note 13)	(25.042)	(22.671)
Advertising expenses	(24.881)	(26.099)
Vehicle transportation expenses	(10.382)	(9.062)
Spare parts transportation and packaging expenses	(5.943)	(4.723)
Export expenses	(4.336)	(3.745)
Dealer and service development expenses	(2.639)	(3.766)
Depreciation and amortization expenses (Notes 10 and 11)	(942)	(805)
Other	(18.576)	(14.264)
	<b>(118.113)</b>	<b>(105.583)</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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

	31 March 2018	31 March 2017
<b>General administrative expenses</b>		
Personnel expenses	(31.993)	(25.205)
Grants and donations	(8.873)	(5.163)
Legal, consulting and auditing expenses	(8.720)	(5.580)
New project administrative expenses	(3.624)	(955)
Depreciation and amortization expenses (Notes 10 and 11)	(3.603)	(3.030)
Organization expenses	(3.205)	(966)
Travel expenses	(1.547)	(995)
Duties, taxes and levies	(839)	(1.444)
Repair, maintenance and energy expenses	(746)	(932)
Other	(11.803)	(8.284)
	<b>(74.953)</b>	<b>(52.554)</b>
<b>Research and development expenses</b>		
Personnel expenses	(45.945)	(41.051)
Project costs	(29.809)	(11.503)
Mechanization expenses	(12.825)	(11.858)
Depreciation and amortization expenses (Notes 10 and 11)	(5.102)	(4.634)
Other	(4.899)	(6.037)
	<b>(98.580)</b>	<b>(75.083)</b>

#### NOTE 20 - EXPENSES BY NATURE

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

	31 March 2018	31 March 2017
Raw material cost	(5.652.009)	(4.057.943)
Cost of trade goods sold	(721.122)	(472.127)
Personnel expenses	(308.325)	(226.768)
Other operational expenses	(178.689)	(138.045)
Financial expenses	(177.245)	(132.907)
Other overhead costs	(155.413)	(121.926)
Depreciation and amortization expenses	(127.486)	(117.705)
Other expenses from operating activities	(100.886)	(80.403)
Expenses from investing activities	(1.480)	-
Changes in finished goods	326.709	58.727
<b>Total expenses</b>	<b>(7.095.946)</b>	<b>(5.289.097)</b>

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**  
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 21 - OTHER OPERATING INCOME / EXPENSES**

	<b>31 March 2018</b>	<b>31 March 2017</b>
<b>Other operating income</b>		
Foreign exchange gains related to trade receivables and payables	85.480	52.627
Credit finance income	40.348	22.887
License fees income	2.727	2.594
Price difference and claim recovery	5.675	875
Rent income	1.465	1.432
Commission income	1.084	909
Other	11.794	10.222
	<b>148.573</b>	<b>91.546</b>

	<b>31 March 2018</b>	<b>31 March 2017</b>
<b>Other operating expenses</b>		
Credit finance charges	(65.337)	(32.369)
Foreign exchange losses related to trade receivables and payables	(33.066)	(46.240)
Other	(2.483)	(1.794)
	<b>(100.886)</b>	<b>(80.403)</b>

**NOTE 22 - FINANCIAL INCOME**

	<b>31 March 2018</b>	<b>31 March 2017</b>
Foreign exchange gains	86.273	69.704
Interest income	20.032	12.692
	<b>106.305</b>	<b>82.396</b>

**NOTE 23 - FINANCIAL EXPENSES**

	<b>31 March 2018</b>	<b>31 March 2017</b>
Foreign exchange losses	(157.599)	(117.995)
Interest expenses	(10.994)	(10.967)
Other	(8.652)	(3.945)
	<b>(177.245)</b>	<b>(132.907)</b>

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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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 2018 is 22% (31 December 2017 - 20%). Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc.) and corporate income tax deductions (e.g. research and development expenditures deduction). No further tax is payable unless the profit is distributed.

15% withholding tax rate applies to dividends distributed by resident corporations and 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 March 2018, the Company utilised R&D incentive exemption amounting of TL 103.147 (31 March 2017: TL 88.870) in return for the legal tax.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

Within the scope of the 2009/15199 Decree of the Council of Ministers on State Aid for Investments, the Company has received a Large-Scale Investment Incentive Certificate with an investment contribution rate of 30% for investments in the New Generation Transit and new product Transit Custom model. The total investment amount is TL 559.295 investment expenditures have been made, the document closed in 2013.

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

- In the Kocaeli Gölcük Plant, for the New Generation Transit expenditures, amounting to TL 1.194.398 in 2013 (with the investment expenditure of TL 1.311.502 in 2017, the document closing process is continuing),
- In Kocaeli Yeniköy Plant, for the new model Transit Courier investment, amounting to TL 697.394 in 2013 (completed with investment expenditures of TL 798.311 in 2016 and the document was closed in 2018),
- For the production of new 6 and 4-cylinder engines for use in Ford Cargo Truck and Ford Transit vehicles at the Eskişehir İnönü Plant, in 2013 amounting to TL 187.379,
- In Eskisehir Inonu Plant, for Euro 6 emission truck manufacturing expense investment amounting to TL 331.362 in 2014,
- For the renewal and factory modernization investments of Ford Transit, Ford Transit Courier and Ford Transit Custom models, which are still in production at Kocaeli Plant, in 2016 amounting to TL 849.160,

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

As of the date of the balance sheet, the investment expenditures amounting to TL 2.883.236 (31 March 2017: TL 2.267.721) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TL 51.357 (31 March 2017: TL 30.950) 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 March 2018 and 31 December 2017 are as follows:

	31 March 2018	31 December 2017
Current year corporate tax expense	(5.381)	(19.511)
Prepaid tax and withholding	13.121	13.121
<b>Current years' profit tax asset / (liability)</b>	<b>7.740</b>	<b>(6.390)</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 March 2018 and 2017 are as follows;

	31 March 2018	31 March 2017
Current year corporate tax expense	(5.381)	(4.145)
Current year tax effect of cash flow hedge (*)	(27.603)	(14.674)
Other deferred tax	23.897	11.001
<b>Deferred tax income</b>	<b>(3.706)</b>	<b>(3.673)</b>
<b>Continuing operations tax income / (expense)</b>	<b>(9.087)</b>	<b>(7.818)</b>

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

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at 31 March 2018 and 2017 and current tax ratio based on income before tax is as follows:

	31 March 2018	31 March 2017
Income before tax:	441.352	280.086
Effective tax rate	%22	%20
Current year tax expense	(97.098)	(56.017)
Research and development deductions	22.692	17.774
Investment incentive exemption	66.522	30.955
Other	(1.203)	(530)
	<b>(9.087)</b>	<b>(7.818)</b>

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 MARCH 2018

(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 March 2018 and 31 December 2017 using the current enacted tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
<b>Deferred tax assets:</b>				
Investment incentive tax asset	4.037.011	4.037.011	780.128	764.963
Expense accruals and other provisions	357.973	398.708	77.277	86.416
Employee benefits provision	146.671	131.726	29.335	26.345
Warranty expense provision	231.100	231.525	50.426	50.520
Inventories	47.787	26.380	10.513	5.803
	<b>4.820.542</b>	<b>4.825.350</b>	<b>947.679</b>	<b>934.047</b>
<b>Deferred tax liabilities:</b>				
Tangibles and intangibles	1.451.980	1.459.592	(290.396)	(291.918)
Income accruals and other	30.425	72.168	(6.524)	(15.686)
	<b>1.482.405</b>	<b>1.531.760</b>	<b>(296.920)</b>	<b>(307.604)</b>
<b>Net deferred tax asset</b>			<b>650.759</b>	<b>626.443</b>

The deferred tax movement table is presented below:

	1 January 2018	Charged to Statement of profit or loss as income / (expense)	Charged to comprehensive income statement as income / (expense)	31 March 2018
<b>Deferred tax liabilities:</b>				
Tangible and intangible assets	(291.918)	1.522	-	(290.396)
Income accruals and other	(15.686)	9.094	68	(6.524)
<b>Deferred tax assets:</b>				
Investment incentive tax asset	764.963	15.165	-	780.128
Expense accruals and other	86.416	(9.139)	-	77.277
Provision for employee benefits	26.345	2.639	351	29.335
Warranty expense provision	50.520	(94)	-	50.426
Inventories	5.803	4.710	-	10.513
<b>Deferred tax asset, net</b>	<b>626.443</b>	<b>23.897</b>	<b>419</b>	<b>650.759</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 24 - TAX ASSETS AND LIABILITIES (Continued)

	1 January 2017	Charged Statement profit or loss as income / (expense)	Charged to comprehensive income statement as income / (expense)	31 March 2017
<b>Deferred tax liabilities:</b>				
Tangible and intangible assets	(286.054)	7.162	-	(278.892)
Income accruals and other	(18.440)	6.371	104	(11.965)
<b>Deferred tax assets:</b>				
Investment incentive tax asset	740.039	4	-	740.043
Expense accruals and other	61.211	(2.563)	-	58.648
Provision for employee benefits	22.004	910	413	23.327
Warranty expense provision	30.878	259	-	31.137
Inventories	6.676	(1.142)	-	5.534
<b>Deferred tax asset, net</b>	<b>556.314</b>	<b>11.001</b>	<b>517</b>	<b>567.832</b>

### NOTE 25 - EARNINGS PER SHARE

	31 March 2018	31 March 2017
Net income for the year	432.265	272.268
Weighted average number of shares with nominal	35.091.000.000	35.091.000.000
<b>Earnings per share with nominal value of Kr 1 each</b>		
	<b>1,23 Kr</b>	<b>0,78 Kr</b>

### 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 March 2018 and 31 December 2017 and the transactions with related parties during the year are as follows:

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

#### a) Receivables from related parties:

##### i) *Trade receivable from related parties*

31 March 2018 31 December 2017

#### Due from shareholders:

Ford Motor Company and its subsidiaries	1.463.090	1.444.291
	<b>1.463.090</b>	<b>1.444.291</b>

#### Due from group companies (\*):

Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	338.798	619.403
Other	686	1.736
	<b>339.484</b>	<b>621.139</b>
Less: Unearned credit finance income	(4.022)	(8.163)
	<b>1.798.552</b>	<b>2.057.267</b>

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

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

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

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

#### b) Payables to related parties:

##### i) *Trade payables to related parties*

	31 March 2018	31 December 2017
<b>Due to shareholders:</b>		
<hr/>		
Ford Motor Company and its subsidiaries	983.571	760.742
	<b>983.571</b>	<b>760.742</b>
<hr/>		
<b>Trade payables due to related parties (*):</b>		
<hr/>		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	42.662	56.218
Ram Dış Ticaret A.Ş.	37.485	45.224
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	7.068	14.058
Setur Servis Turistik A.Ş.	9.527	4.464
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3.713	3.403
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	2.671	3.193
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	3.392	3.029
AKPA Dayanıklı Tüketim LPG ve		
Akaryakıt Ürünleri Pazarlama A.Ş.	1.978	1.960
Ram Sigorta Aracılık Hizmetleri A.Ş.	1.875	97
Other	3.069	4.196
	<b>113.440</b>	<b>135.842</b>
<hr/>		
Less: Unearned credit finance expense	(1.007)	(1.025)
	<b>1.096.004</b>	<b>895.559</b>
<hr/>		

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

##### ii) *Other payables to related parties*

	31 March 2018	31 December 2017
<hr/>		
<b>Koç Holding A.Ş. (*)</b>		
Ford Motor Company (*)	311.139	10.458
Vehbi Koç Vakfı (*)	328.313	-
Koç Holding Emekli ve Yardım Sandığı Vakfı (*)	8.113	-
Temel Ticaret ve Yatırım A.Ş. (*)	7.431	-
Koç Finansman A.Ş.	5.371	-
Yapı ve Kredi Bankası A.Ş.	-	13.277
Other (*)	143.153	7.703
	<b>803.520</b>	<b>31.438</b>
<hr/>		

(\*) The balances at 31 March 2018 consist of dividend payables to shareholders and dividend payables were paid in April 2018.

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

#### c) Sales to related parties:

	31 March 2018	31 March 2017
Ford Motor Company (*)	5.636.556	4.210.190
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	341.186	305.831
Other	3	3
	<b>5.977.745</b>	<b>4.516.024</b>
Less: Financial income from credit sales	(9.122)	(6.321)
	<b>5.968.623</b>	<b>4.509.703</b>

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

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

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

	1 January – 31 March 2018			
	Material	Service	Fixed assets	Total
<b>Domestic purchases:</b>				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	5.883	72.515	15	78.413
Ram Dış Ticaret A.Ş.	38.468	-	-	38.468
Setur Servis Turistik A.Ş.	-	9.746	-	9.746
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	2.509	3.389	5.898
AKPA Dayanıklı Tüketicim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	5.732	-	-	5.732
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	5.345	-	5.345
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	1.596	3.386	4.982
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3.702	-	-	3.702
Koç Holding A.Ş. (*)	-	2.920	-	2.920
Koçtaş Yapı Marketleri Ticaret A.Ş.	2.758	-	-	2.758
Opet Petrolcülük A.Ş.	1.271	-	-	1.271
Tanı Pazarlama İlet. Hiz. A.Ş.	-	203	-	203
Other	3.842	1.114	-	4.956
	<b>61.656</b>	<b>95.948</b>	<b>6.790</b>	<b>164.394</b>
Less: Financial expense from credit purchases	(1.388)	-	-	(1.388)
	<b>60.268</b>	<b>95.948</b>	<b>6.790</b>	<b>163.006</b>

(\*) 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 March 2018 and 2017 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 MARCH 2018

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

### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

	1 January – 31 March 2017			
	Material	Service	Fixed assets	Total
<b>Domestic purchases:</b>				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	4.048	59.777	34	63.859
Ram Diş Ticaret A.Ş.	32.944	-	-	32.944
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	4.730	1.178	5.908
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	4.121	1.013	5.134
Setur Servis Turistik A.Ş.	-	5.216	-	5.216
Koç Holding A.Ş. (*)	-	2.860	-	2.860
AKPA Dayanıklı Tüketicim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	4.854	-	-	4.854
Koçtaş Yapı Marketleri Ticaret A.Ş.	2.657	-	7	2.664
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	3.700	-	3.700
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	2.285	-	-	2.285
Opet Petrolcülük A.Ş.	1.050	-	-	1.050
Tanı Pazarlama İlet. Hiz. A.Ş.	-	375	-	375
Other	-	1.216	-	1.216
	<b>47.838</b>	<b>81.995</b>	<b>2.232</b>	<b>132.065</b>
Less: Financial expense from Credit purchases	(799)	-	-	(799)
	<b>47.039</b>	<b>81.995</b>	<b>2.232</b>	<b>131.266</b>

### Material, vehicle and service purchases from abroad:

	31 March 2018	31 March 2017
Ford Motor Company and subsidiaries	3.329.729	2.467.037
<b>e) License fees paid to Ford Motor Company included in cost of sales:</b>		
	31 March 2018	31 March 2017
	28.128	24.309
<b>f) License fees received from Jiangling Motors Corporation, a subsidiary of Ford Motor Company, included in other income</b>		
	31 March 2018	31 March 2017
	2.727	2.594
<b>g) Donations to related parties and foundations included in general administrative expenses:</b>		
	31 March 2018	31 March 2017
	8.748	5.148

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

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

Deposits in related banks:	31 March 2018	31 December 2017
<b>Yapı ve Kredi Bankası A.Ş.</b>		
- TL time deposits	428.567	105.630
- TL demand deposits	15.113	8.005
- Foreign currency time deposits	822	2.561
	<b>444.502</b>	<b>116.196</b>

#### i) Commission income:

	31 March 2018	31 March 2017
Koç Finansman A.Ş.	692	545
Yapı ve Kredi Bankası A.Ş.	392	364
	<b>1.084</b>	<b>909</b>

#### i) Commission expense:

	31 March 2018	31 March 2017
Koç Finansman A.Ş.	12.092	7.909
Yapı ve Kredi Bankası A.Ş.	3.482	3.972
	<b>15.574</b>	<b>11.881</b>

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 March 2018	31 March 2017
Yapı ve Kredi Bankası A.Ş.	4.612	2.315

#### k) Dividend income:

	31 March 2018	31 March 2017
Otokar Otomotiv ve Savunma Sanayi A.Ş.	410	351

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS**

### **FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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#### **NOTE 26 - RELATED PARTY DISCLOSURES (Continued)**

##### **I) Compensation of key management personnel:**

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

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

The total amount of compensation given to key management personnel of the Company as of 31 March 2018 is TL 4.814 (31 March 2017: TL 4.154).

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

#### 31 March 2018

	TL (Functional currency)	USD	Euro	Other
1. Trade receivables	1.646.998	26.430	316.938	-
2. Monetary financial assets (including cash and cash equivalents)	1.263.796	40.055	227.138	1.607
3. Other	277.703	7.163	51.243	-
<b>4. Current assets (1 + 2 + 3)</b>	<b>3.188.497</b>	<b>73.648</b>	<b>595.319</b>	<b>1.607</b>
5. Monetary financial assets	-	-	-	-
<b>6. Non-current assets (5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>7. Total assets (4+6)</b>	<b>3.188.497</b>	<b>73.648</b>	<b>595.319</b>	<b>1.607</b>
8. Trade payables	1.154.510	21.019	219.414	642
9. Financial liabilities (*)	2.201.601	40.000	419.873	-
10. Other monetary liabilities	4.089	-	840	-
<b>11. Short term liabilities (8 + 9 + 10)</b>	<b>3.360.200</b>	<b>61.019</b>	<b>640.127</b>	<b>642</b>
12. Financial liabilities (*)	1.866.027	-	383.380	-
13. Other	107.051	-	21.994	-
<b>14. Long term liabilities (12+13)</b>	<b>1.973.078</b>	<b>-</b>	<b>405.374</b>	<b>-</b>
<b>15. Total liabilities (11 + 14)</b>	<b>5.333.278</b>	<b>61.019</b>	<b>1.045.501</b>	<b>642</b>
<b>16. Net foreign currency (liabilities) / assets position (7 - 15)</b>	<b>(2.144.781)</b>	<b>12.629</b>	<b>(450.182)</b>	<b>965</b>
<b>17. Net monetary foreign currency (liabilities) / assets (1 + 2 + 5 - 8 - 9 - 10 - 12)</b>	<b>(2.315.433)</b>	<b>5.466</b>	<b>(479.431)</b>	<b>965</b>

(\*) 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 2.562.391 as of 31 March 2018 (31 December 2017 TL 1.862.921). Company has finished goods amount to TL 203.157 as of 31 March 2018 (31 December 2017: TL 69.802) that will be exported.

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

**31 December 2017**

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

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

(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 March 2018**

	<b>Profit / (loss) before taxation</b>	
	<b>Increase by 10%</b>	<b>Decrease by 10%</b>
<b>Appreciation / depreciation in foreign currency</b>		
<b>Change in USD against TL</b>		
USD net assets / (liabilities)	4.987	(4.987)
USD net hedged amount	-	-
<b>USD net- gain / (loss)</b>	<b>4.987</b>	<b>(4.987)</b>
<b>Change in Euro against TL</b>		
Euro net (liabilities) / assets	(219.117)	219.117
Euro net hedged amount	256.239	(256.239)
<b>Euro net- gain / (loss)</b>	<b>37.122</b>	<b>(37.122)</b>
<b>Change in other foreign currency against TL</b>		
Other foreign currency denominated net (liabilities) / assets	(348)	348
Other foreign currency denominated- hedged amount	-	-
<b>Other foreign currency denominated net - (loss) / gain</b>	<b>(348)</b>	<b>348</b>

**31 December 2017**

	<b>Profit / (loss) before taxation</b>	
	<b>Increase by 10%</b>	<b>Decrease by 10%</b>
<b>Appreciation / depreciation in foreign currency</b>		
<b>Change in USD against TL</b>		
USD net assets / (liabilities)	5.460	(5.460)
USD net hedged amount	-	-
<b>USD net- gain / (loss)</b>	<b>5.460</b>	<b>(5.460)</b>
<b>Change in Euro against TL</b>		
Euro net (liabilities) / assets	(179.515)	179.515
Euro net hedged amount	186.292	(186.292)
<b>Euro net- gain / (loss)</b>	<b>6.777</b>	<b>(6.777)</b>
<b>Change in other foreign currency against TL</b>		
Other foreign currency denominated net (liabilities) / assets	(906)	906
Other foreign currency denominated- hedged amount	-	-
<b>Other foreign currency denominated net - (loss) / gain</b>	<b>(906)</b>	<b>906</b>

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

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

	<b>31 March 2018</b>	<b>31 March 2017</b>
Total export amount	5.728.030	4.262.191
Total import amount	3.651.771	2.570.118

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:

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Fixed interest rate financial instruments</b>		
Financial assets	1.979.777	1.764.533
Financial liabilities	2.558.965	1.885.646
<b>Floating interest rate financial instruments</b>		
Financial liabilities	1.508.662	1.718.401

If the interest rates of floating interest-bearing Euro denominated borrowings were 100 basis points higher / lower with all other variables held constant, profit before tax for the year would have been lower / higher by TL 5.592 at 31 March 2018 (31 December 2017: TL 2.495) due to higher / lower interest expense.

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

(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:

<b>31 March 2018</b>	<b>Book value</b>	<b>Total contractual cash outflow</b>	<b>Up to 3 months</b>	<b>Between 3-12 months</b>	<b>Between 1-5 years</b>	<b>Longer than 5 years</b>
<b>Non-derivative financial instruments</b>						
<b>Financial liabilities</b>	<b>4.067.627</b>	<b>4.141.661</b>	<b>860.844</b>	<b>1.327.340</b>	<b>1.705.311</b>	<b>248.166</b>
<b>Trade payables</b>						
- Related party	1.096.004	1.097.011	1.097.011	-	-	-
- Other	2.864.854	2.886.813	2.886.813	-	-	-
<b>Other liabilities</b>						
- Related party	803.520	803.520	803.520	-	-	-
- Other	83.336	83.336	83.336	-	-	-
<b>Derivative financial liabilities</b>						
<b>Derivative financial instruments</b>	<b>238</b>	<b>238</b>	<b>-</b>	<b>-</b>	<b>238</b>	<b>-</b>

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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

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

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

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

31 March 2018	Level 1 (*)	Level 2 (**)	Level 3
<b>Assets at fair value</b>			
Derivative financial assets			
Financial assets measured at fair value through other comprehensive income - Otokar	16.056	-	-
<b>Total assets</b>	<b>16.056</b>	-	-
<b>Liabilities at fair value</b>			
Derivative financial liabilities	-	238	-
<b>Total liabilities</b>	<b>-</b>	<b>238</b>	-

(\*) 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 MARCH 2018

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

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

31 December 2017

	Level 1 (*)	Level 2 (**)	Level 3
<b>Assets at fair value</b>			
Derivative financial assets	-	4.531	-
Financial assets measured at fair value through other comprehensive income - Otokar	17.406	-	-
<b>Total assets</b>	<b>17.406</b>	<b>4.531</b>	-
<b>Liabilities at fair value</b>			
Derivative financial liabilities	-	187	-
<b>Total liabilities</b>	<b>-</b>	<b>187</b>	-

(\*) 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).

### 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 March 2018 with the maturity of 3 November 2019 amounting to Euro 51.428.571 with interest rate swaping. The critical conditions of the settlement contract such as maturity, payment, interest rate change dates are in line with the critical conditions of the foreign currency borrowing, which is the subject of financial hedge as of 31 March 2018. The fair value of the interest rate swap transaction calculated as of 31 March 2018 is TL 238 and it is classified as long - term liabilities.

#### Derivative financial instruments:

	31 March 2018	31 December 2017
Derivative financial liabilities	238	187
	<b>238</b>	<b>187</b>

**FORD OTOMOTİV SANAYİ A.Ş.**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**  
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 28 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

In 2017, the Company has applied currency hedging to its cash position as much as its credit counterparts in order to hedge exchange rate risk on the repayment of part of its loans in the euro currency, which will be floated in January 2018. The said currency forward transaction was realized in January 2018.

	<b>31 March 2018</b>	<b>31 December 2017</b>
Derivative financial assets	-	4.531
	<b>4.531</b>	

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

	<b>31 March 2018</b>	<b>31 December 2017</b>
<b>Cash flow hedge reserve:</b>		
Amount recognized in other comprehensive income	190.986	392.450
Amount recycled from other comprehensive income to statement of profit or loss	(65.403)	(183.786)
	<b>125.583</b>	<b>208.664</b>

**NOTE 29 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES**

	<b>31 March 2018</b>	<b>31 March 2017</b>
<b>Income from investing activities</b>		
Dividend income	410	351
Gain on sale of property, plant and equipment	-	13
	<b>410</b>	<b>364</b>

	<b>31 March 2018</b>	<b>31 March 2017</b>
<b>Expense from investing activities</b>		
Loss on sale of property, plant and equipment	(1.480)	-
	<b>(1.480)</b>	<b>-</b>

# FORD OTOMOTİV SANAYİ A.Ş.

## NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018

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

### NOTE 30 - DEFERRED REVENUE

	31 March 2018	31 December 2017
Advances received	11.017	10.929
	<b>11.017</b>	<b>10.929</b>

	31 March 2018	31 December 2017
Long term deferred revenue	5.992	7.450
	<b>5.992</b>	<b>7.450</b>

### NOTE 31 - OTHER NON CURRENT LIABILITIES

	31 March 2018	31 December 2017
Other non-current liabilities (*)	120.951	115.631
	<b>120.951</b>	<b>115.631</b>

(\*) 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.

### NOTE 32 - GOVERNMENT INCENTIVES AND GRANTS

Within the scope of the 2009/15199 Decree of the Council of Ministers on State Aid for Investments, the Company has received a Large-Scale Investment Incentive Certificate with an investment contribution rate of 30% for investments in the New Generation Transit and new product Transit Custom model. The total investment amount is TL 559.295 investment expenditures have been made, the document closed in 2013.

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

- In the Kocaeli Gölcük Plant, for the New Generation Transit expenditures, amounting to TL 1.194.398 in 2013 (with the investment expenditure of TL 1.311.502 in 2017, the document closing process is continuing),
- In Kocaeli Yeniköy Plant, for the new model Transit Courier investment, amounting to TL 697.394 in 2013 (completed with investment expenditures of TL 798.311 in 2016 and the document was closed in 2018),
- For the production of new 6 and 4-cylinder engines for use in Ford Cargo Truck and Ford Transit vehicles at the Eskişehir İnönü Plant, in 2013 amounting to TL 187.379,
- In Eskisehir Inonu Plant, for Euro 6 emission truck manufacturing expense investment amounting to TL 331.362 in 2014,

# **FORD OTOMOTİV SANAYİ A.Ş.**

## **NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 MARCH 2018**

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

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### **NOTE 32 - GOVERNMENT INCENTIVES AND GRANTS (Continued)**

- For the renewal and factory modernization investments of Ford Transit, Ford Transit Courier and Ford Transit Custom models, which are still in production at Kocaeli Plant, in 2016 amounting to TL 849.160,

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

### **NOTE 33 - SUBSEQUENT EVENTS**

In the Ordinary General Meeting held on 19 March 2018, the Company received a cash dividend distribution decision amounting to TL 800.075 with a gross dividend of TL 2,28 (net 193,80 Kurus) and a ratio of 228% payment from 2 April 2018 onwards.

### **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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