FORD OTOMOTİV SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS AT 31 DECEMBER 2019 TOGETHER WITH AUDITOR'S REVIEW REPORT

(ORIGINALLY ISSUED IN TURKISH)

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

INDEPENDENT AUDITOR'S REPORT

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

A. Audit of the financial statements

1. Our opinion

We have audited the accompanying financial statements of Ford Otomotiv Sanayi A.Ş. (the "Company") which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements comprising a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for opinion

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

3. Key audit matters

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

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
BJK Plaza, Süleyman Seba Caddesi No:48 B Blok Kat:9 Akaretler Beşiktaş 34357 İstanbul-Turkey
T: +90 212 326 6060, F: +90 212 326 6050, www.pwc.com.tr Mersis Numaramız: 0-1460-0224-0500015

Key Audit Matters	How the key audit matter was addressed in the audit
Cash Flow Hedge Accounting (Notes 2 and 28)	
Based on the manufacturing agreements with Ford Motor Company, the Company associates sales of specific models of commercial vehicles subject to export by the end of 2026 with long term loans denominated in Euros, borrowed for the investments related to manufacturing of such vehicles. Sales subject to the agreement are denominated in Euro and are affected by the TRY/EUR exchange rate fluctuations. The Company hedges the foreign exchange rate risk with the borrowings obtained in the same currency. We focused on this matter during our audit for the reasons below: - The cash flow hedge losses which are classified under equity as of 31 December 2019 amount to TRY705,427 thousand. This amount is material in terms of the financial statements. - Cash flow hedge accounting is structurally complex and its audit requires professional expertise. Mistakes that might occur when calculating and accounting for this subject may affect the financial statements significantly.	- We tested the official definition and documentation of risk management's target and strategy, which causes the Company to hedge against cash flow risk. We also tested the completeness and accuracy of data and the assumptions used in the hedge accounting work with the support of our subject matter experts. - We reviewed the effectiveness of the cash flow hedge. We tested whether the range of increase/decrease in the fair value of the revenue planned for in future and the increase/decrease in fair value of the borrowings are between 80% and 120%. - We checked the agreements related to the vehicle sales and whether sales volumes and prices of the vehicles subject to cash flow hedging agree with the budget approved by management. We checked whether methods used for calculating vehicle costs comply with the agreement. - We reviewed repayment plans for the borrowings denominated in Euro by reviewing the loan agreements and obtaining bank confirmations. We checked to what extent monthly borrowing payments cover monthly sales. - We checked the mathematical accuracy of the accounting bookings related to this subject. - We assessed the sufficiency of the financial statement disclosures related to the cash flow hedge accounting.

pwc

Key Audit Matters	How the key audit matter was addressed in the audit
Warranty Provisions (Notes 2 and 13)	
The Company has warranty provisions amounting to TRY209,168 thousand as of 31 December 2019. We focused on this matter during our audit for the reasons below: - The warranty provision of TRY209,168 thousand is a liability in the financial statements as of 31 December 2019. The amount of the warranty provision is material. - The Company provides a standard warranty service and optional roadside assistance, extended warranty and spare part warranty services for any vehicle sold domestically. The Company calculates the current period warranty provision based on the actual warranty expense per vehicle in the previous period. The warranty cost per vehicle is approved twice a year by the management and is calculated for each vehicle model, based on the technical department's experience and warranty claims in the past also complying with the instructions of Ford Motor Company. Since the warranty cost per vehicle is determined in Euro, foreign exchange rate estimation is also included in the calculation. Fluctuation of the foreign exchange rates may affect the financial statements materially. Warranty provision calculation is determined to be a Key Audit Matter since it involves estimations bearing an inherent risk of misstatement.	- When calculating the warranty provision, the management makes assumptions based on the number of vehicles subject to warranty, the length of the warranty period, and the warranty claims in the previous periods. We tested the effectiveness of the controls during the estimation process. - We confirmed that unit managers approve the unit cost estimations per vehicle. We tested unit costs through sampling by detailed tests. - To test the data on which the estimations are based, the number of vehicles sold were agreed to the sales reports. Sales reports were reconciled to the sale accounts. - Foreign exchange rates are considered when estimating the warranty cost per vehicle. We confirmed that the foreign exchange rate, which is a forward-looking estimate used when calculating the warranty provision, is the same foreign exchange rate used in the budget approved by the management. We also evaluated the reasonableness of the warranty provision considering the fluctuations of the foreign exchange rate. - We tested the actual warranty expenses realised in the current period on a sampling basis based on the movements of the warranty provision amounting to TRY209,168 thousand. - We tested the reasonableness of the actual warranty expenses with the warranty provisions set aside in previous periods. - Warranty provisions are calculated based on cost per vehicle estimations, considering the actual claims in the past and also technically and financially planned developments. We performed a sensitivity analysis on these estimations and assessed their impact. - We assessed the sufficiency of the financial statement disclosures related to warranty expenses.

Key Audit Matters	How the key audit matter was addressed in the audit
Application of TFRS 16, "Leases" and its impacts on the financial statements and notes to the financial statements (Notes 2,6 and 33)	
TFRS 16, "Leases" ("TFRS 16") is effective for periods beginning on or after 1 January 2019. The application of the new standard resulted in the recognition of right of use assets amounting to TRY 99,714 thousand and increase in financial lease liabilities amounting to TRY 89,253 thousand. The Company has preferred the simplified transition method in the first time adoption of TFRS 16 and has not restated comparative financial statements. The amounts recognized as a result of the adoption of TFRS 16 are significant for the financial statements and the determination of the accounting policy requires the assessment of the Company management. In addition, the measurement of the right of use assets and financial lease liabilities are based on significant estimates and assumptions of the management. The substantial part of these estimates are interest rates used to discount cash flows and assessment of options to extend or terminate lease contracts. Nevertheless, the notes to the financial statements of the Company as of 31 December 2019 are significantly affected by the application of TFRS 16. Therefore, the impacts of the first time adoption of TFRS 16 on the financial statements and the notes to the financial statements are determined as a key audit matter for our audit.	- We undestood and evaluated the significant processes affecting financial reporting related to the adoption of TFRS 16. - We inquired with the Company management and understood their assessment regarding the transition process to TFRS 16 and assessed the compliance of their assessment with the transition rules of the standard. - We evaluated the compliance of the simplified transition method applied by the Company in the transition period to the provisions related to transition. - We recalculated the right of use assets and related financial lease liabilities recognised in the financial statements by using rates such as interest rate, rent increase rate etc. for the selected lease contracts that are in scope of TFRS 16. - We evaluated the compliance of inputs used in the calculation like rent increase rate, interest rate etc for these selected contracts. - We selected the lease contracts used in the calculation of right of use assets and financial lease liabilities on a sample basis and tested the compliance of the term of the lease contacts and the assessment of the extension options applied if such options exist with the provision of the contract. - We tested the disclosures in the financial statements in relation to the application of TFRS 16 and evaluating the adequacy of such disclosures.

4. Responsibilities of management and those charged with governance for the financial statements

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

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

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

5. Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

B. Other responsibilities arising from regulatory requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2019 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

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

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 11 February 2020.

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

Beste Ortaç, SMMM
Partner

İstanbul, 11 February 2020

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

FORD OTOMOTİV SANAYİ A.Ş.

FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019

CONTENTS **PAGE**

STATEMENTS OF FINANCIAL POSITION		**1-2**
STATEMENTS OF PROFIT OR LOSS		**3**
STATEMENTS OF OTHER COMPREHENSIVE INCOME		**4**
STATEMENTS OF CHANGES IN EQUITY		**5**
STATEMENTS OF CASH FLOWS		**6**
NOTES TO THE FINANCIAL STATEMENTS		**7-80**
NOTE 1	ORGANIZATION AND NATURE OF THE OPERATIONS	7
NOTE 2	BASIS OF PRESENTATION OF FINANCIAL STATEMENTS	7-32
NOTE 3	SEGMENT REPORTING	32
NOTE 4	CASH AND CASH EQUIVALENTS	33
NOTE 5	FINANCIAL INVESTMENTS	33
NOTE 6	FINANCIAL LIABILITIES	34-35
NOTE 7	TRADE RECEIVABLES AND PAYABLES	36-39
NOTE 8	OTHER RECEIVABLES AND PAYABLES	39
NOTE 9	INVENTORIES	40
NOTE 10	PROPERTY, PLANT AND EQUIPMENT	41-43
NOTE 11	INTANGIBLE ASSETS	43-44
NOTE 12	PREPAID EXPENSES	44
NOTE 13	PROVISIONS, CONTINGENT ASSETS AND LIABILITIES	45-47
NOTE 14	COMMITMENTS	47
NOTE 15	EMPLOYEE BENEFITS	48-49
NOTE 16	OTHER CURRENT ASSETS	50
NOTE 17	EQUITY	50-53
NOTE 18	REVENUE AND COST OF SALES	53-54
NOTE 19	RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES, GENERAL ADMINISTRATIVE EXPENSES	54-55
NOTE 20	EXPENSES BY NATURE	55
NOTE 21	OTHER OPERATING INCOME/EXPENSES	56
NOTE 22	FINANCIAL INCOME	56
NOTE 23	FINANCIAL EXPENSES	56
NOTE 24	TAX ASSETS AND LIABILITIES	57-61
NOTE 25	EARNINGS PER SHARE	61
NOTE 26	RELATED PARTY DISCLOSURES	61-67
NOTE 27	FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT	68-75
NOTE 28	DERIVATIVE FINANCIAL INSTRUMENTS	75-76
NOTE 29	INCOME/EXPENSES FROM INVESTING ACTIVITIES	76
NOTE 30	DEFERRED INCOME	76
NOTE 31	OTHER NON CURRENT LIABILITIES	77
NOTE 32	INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD	77
NOTE 33	RIGHT OF USE ASSETS	78
NOTE 34	GOVERNMENT INCENTIVES AND GRANTS	78-79
NOTE 35	INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	79
NOTE 36	SUBSEQUENT EVENTS	80
NOTE 37	DISCLOSURE OF OTHER MATTERS	80

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 AND 2018

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

	Notes	Current period audited 31 December 2019	Previous period audited 31 December 2018
Assets			
Current assets		**10,156,798**	**7,395,461**
Cash and cash equivalents	4	3,202,952	1,392,772
Trade receivables			
- Due from related parties	26	2,547,130	2,082,263
- Due from third parties	7	1,557,963	1,058,926
Other receivables			
- Due from third parties	8	1,870	2,788
Inventories	9	1,827,399	1,864,645
Prepaid expenses	12	178,382	74,375
Other current assets	16	841,102	919,692
Non-current assets		**6,249,574**	**5,788,979**
Financial assets	5	22,355	12,408
Trade receivables			
- Due from third parties	7	2,903	2,954
Property, plant and equipment	10	4,436,548	3,922,747
Intangible assets	11	831,196	823,342
Right of use assets	33	99,714	-
Prepaid expenses	12	204,211	382,420
Deferred tax assets	24	650,146	644,175
Investments accounted for by the equity method	32	-	933
Investments in associates and joint ventures	35	2,501	-
Total assets		**16,406,372**	**13,184,440**

Financial statements for the period ended 1 January - 31 December 2019 were approved for issue by the Board of Directors on 11 February 2020.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 AND 2018

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

	Notes	Current period audited 31 December 2019	Previous period audited 31 December 2018
Liabilities			
Current liabilities		**8,645,371**	**7,219,612**
Short-term borrowings			
- Bank borrowings	6	2,589,213	2,030,806
Short-term portion of long-term borrowings			
- Bank borrowings	6	1,025,728	773,457
- Lease liabilities	6	33,169	-
Trade payables			
- Due to related parties	26	884,554	703,567
- Due to third parties	7	3,660,866	3,319,120
Other payables			
- Due to related parties	26	20,617	31,321
- Due to third parties	8	54,541	34,661
Deferred income	30	23,830	13,219
Short-term provisions			
- Other provisions	13	121,102	155,227
Employee benefit liabilities	15	220,273	149,611
Current tax liabilities	24	11,478	8,530
Derivative financial liabilities	28	-	93
Non-current liabilities		**3,096,080**	**2,071,589**
Long-term borrowings			
- Bank borrowings	6	2,503,852	1,678,554
- Lease liabilities	6	56,084	-
Long-term provisions			
- Provision for employment termination benefits	15	287,884	196,368
- Other provisions	13	174,740	136,680
Deferred income	30	10,838	7,479
Other non-current liabilities	31	61,235	52,508
Derivative financial liabilities	28	1,447	-
Equity	**17**	**4,664,921**	**3,893,239**
Paid-in capital		350,910	350,910
Inflation adjustments on capital		27,920	27,920
Share premium		8	8
Other comprehensive income / (loss) not to be reclassified under profit or loss			
- Losses on remeasurements of defined benefit plans		(2,060)	(279)
- Gains from financial assets measured at fair value through other comprehensive income		20,309	10,859
Other comprehensive income/(loss) to be reclassified in profit or loss)			
- Losses on cash flow hedges		(705,427)	(794,287)
Restricted reserves		302,764	370,599
Retained earnings		2,711,013	2,244,313
Net profit for the period		1,959,484	1,683,196
Total liabilities and equity		**16,406,372**	**13,184,440**

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

	Notes	Current period audited 1 January - 31 December 2019	Previous period audited 1 January - 31 December 2018
Continuing operations			
Revenue	18	39,209,019	33,292,030
Cost of sales	18	(35,193,802)	(29,833,459)
Gross profit		**4,015,217**	**3,458,571**
Marketing expenses	19	(649,102)	(507,218)
General administrative expenses	19	(372,893)	(312,143)
Research and development expenses	19	(419,583)	(368,568)
Other income from operating activities	21	633,778	581,129
Other expenses from operating activities	21	(785,389)	(566,898)
Profit from operating activities		**2,422,028**	**2,284,873**
Income from investing activities	29	422	410
Expenses from investing activities	29	(714)	(3,855)
Share of profit/(loss) of investments accounted for by the equity method	32	(933)	(94)
Operating income before financial income/(expense)		**2,420,803**	**2,281,334**
Financial income	22	1,185,601	1,981,623
Financial expense	23	(1,656,231)	(2,501,845)
Profit from continuing operations before tax		**1,950,173**	**1,761,112**
Tax income/(expense) from continuing operations		**9,311**	**(77,916)**
Tax expenses for the period	24	(21,242)	(16,969)
Deferred tax (expense)/income	24	30,553	(60,947)
Net profit		**1,959,484**	**1,683,196**
Earnings per share with a nominal value Kr	**25**	**5.58 Kr**	**4.80 Kr**

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

	Notes	Current period audited 1 January - 31 December 2019	Previous period audited 1 January - 31 December 2018
Net profit		**1,959,484**	**1,683,196**
Other comprehensive income/(expense)			
Other comprehensive income not to be reclassified to profit or loss			
Gains/(losses) on remeasurements of defined benefit plans	17	(2,226)	17,153
Gains/(losses) from financial assets measured at fair value through other comprehensive income	17	9,947	(4,998)
Other comprehensive income taxes not to be reclassified to profit or loss			
Taxes relating to remeasurements of defined benefit plans	17	445	(3,431)
Taxes relating to gains/(losses) from financial assets measured at fair value through other comprehensive income	17	(497)	249
Other comprehensive income to be reclassified to profit or loss			
Other comprehensive income relating to cash flow hedges	17	113,390	(373,028)
Other comprehensive income taxes to be reclassified to profit or loss			
Taxes relating to cash flow hedges	17	(24,530)	81,861
Other comprehensive income		**96,529**	**(282,194)**
Total comprehensive income		**2,056,013**	**1,401,002**

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

				Other comprehensive income not to be reclassified in profit or loss		Other comprehensive income to be reclassified profit or loss		Retained earnings		
	Paid in capital	Inflation adjustments on capital	Share premium	Gain/(losses) from financial assets measured at fair value through other comprehensive income	Gains/(losses) on remeasurements defined benefit plans	Cash flow hedge reserve	Restricted reserves	Accumulated profit	Net profit	Total equity
Balances at 1 January 2018	**350,910**	**27,920**	**8**	**15,608**	**(14,001)**	**(503,120)**	**254,404**	**2,074,147**	**1,489,983**	**3,695,859**
Profit for the period	-	-	-	-	-	-	-	-	1,683,196	1,683,196
Other comprehensive income/(loss)	-	-	-	(4,749)	13,722	(291,167)	-	-	-	(282,194)
Total comprehensive income	-	-	-	(4,749)	13,722	(291,167)	-	-	1,683,196	1,401,002
Transfers	-	-	-	-	-	-	118,608	1,371,375	(1,489,983)	-
Dividends (Note 17)	-	-	-	-	-	-	(2,413)	(1,201,209)	-	(1,203,622)
Balances at 31 December 2018	**350,910**	**27,920**	**8**	**10,859**	**(279)**	**(794,287)**	**370,599**	**2,244,313**	**1,683,196**	**3,893,239**
Balances at 1 January 2019	**350,910**	**27,920**	**8**	**10,859**	**(279)**	**(794,287)**	**370,599**	**2,244,313**	**1,683,196**	**3,893,239**
Profit for the period	-	-	-	-	-	-	-	-	1,959,484	1,959,484
Other comprehensive income/(loss)	-	-	-	9,450	(1,781)	88,860	-	-	-	96,529
Total comprehensive income	-	-	-	9,450	(1,781)	88,860	-	-	1,959,484	2,056,013
Transfers	-	-	-	-	-	-	126,679	1,556,517	(1,683,196)	-
Dividends (Note 17)	-	-	-	-	-	-	(194,514)	(1,089,817)	-	(1,284,331)
Balances at 31 December 2019	**350,910**	**27,920**	**8**	**20,309**	**(2,060)**	**(705,427)**	**302,764**	**2,711,013**	**1,959,484**	**4,664,921**

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

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

	Notes	Current period audited 1 January - 31 December 2019	Previous period audited 1 January - 31 December 2018
Cash flows generated from operating activities		**3,007,664**	**2,176,407**
Net profit for the period		1,959,484	1,683,196
Adjustments to reconcile profit or loss		**2,047,580**	**1,718,170**
Adjustments for depreciation and amortisation expense	10,11,33	775,988	569,203
Adjustments for impairment loss of inventories	9	(6,182)	18,941
Adjustments for provisions related with employee benefits		176,709	40,816
Adjustments for lawsuit and/or penalty provisions	13	10,688	11,084
Adjustments for warranty provisions	13	213,256	106,426
Adjustments for other provisions		(14,419)	(3,459)
Adjustments for dividend income	29	(422)	(410)
Adjustments for interest income	22	(130,798)	(104,777)
Adjustments for interest expense	23	84,684	52,952
Adjustments for tax expenses	24	(9,311)	77,916
Adjustments for unearned financing income	21	(212,193)	(185,498)
Adjustments for deferred financing expense	21	533,692	341,463
Adjustments for loss on sales of property, plant and equipment	29	714	3,855
Other adjustments for which cash effects are investing or financing cash flow		624,241	789,564
Undistributed profits of investments accounted for by the equity method	32	933	94
Changes in working capital		**(434,244)**	**(876,546)**
Decrease/(increase) in trade receivable		(943,931)	200,967
(Increase)/decrease in inventories		25,498	(734,965)
(Increase)/decrease in prepaid expenses		(135,142)	21,099
Increase/(decrease) in trade payable		505,827	231,959
(Increase)/decrease in other assets		81,631	(512,961)
Increase/(decrease) in other liabilities		31,873	(82,645)
Cash flows generated from operations		**3,572,820**	**2,524,820**
Interest paid		(553,614)	(326,558)
Interest received		229,099	159,277
Payments related with provisions for employee benefits	15	(16,757)	(15,260)
Payments related with other provisions		(205,590)	(151,043)
Taxes paid		(18,294)	(14,829)
Cash flows used in investing activities		**(1,048,828)**	**(1,144,606)**
Proceeds from sales of property, plant and equipment		3,261	46,090
Purchase of property, plant and equipment		(1,093,013)	(889,983)
Purchase of intangible assets		(146,607)	(235,473)
Cash advances given and payables		187,109	(64,623)
Dividends received	29	422	410
Acquisition of subsidiaries		-	(1,027)
Cash flows used in financing activities		**(149,628)**	**(1,443,697)**
Proceeds from borrowings		6,237,381	2,759,195
Cash outflows related to borrowings		(5,119,841)	(3,051,482)
Dividends paid	17	(1,284,331)	(1,203,622)
Interest paid		(65,021)	(53,842)
Interest received		129,826	106,054
Cash outflows on debt payments from leasing agreements		(47,642)	-
Net increase /(decrease) in cash and cash equivalents		**1,809,208**	**(411,896)**
Cash and cash equivalents at the beginning of the period		**1,391,021**	**1,802,917**
Cash and cash equivalents at the end of the period	**4**	**3,200,229**	**1,391,021**

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

1. ORGANIZATION AND NATURE OF THE OPERATIONS

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

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

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

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

	Average		Period end	
	2019 December	**2018 December**	**2019 December**	**2018 December**
Hourly	8,230	8,383	8,290	8,086
Salaried	2,516	2,584	2,609	2,512
	10,746	**10,967**	**10,899**	**10,598**

Research and development operations which are also subject to service export is conducted with 1,058 employees in Sancaktepe branch, conducted with 222 employees in R&D centre in Kocaeli plant, and conducted with 109 employees in R&D centre in Eskişehir plant, totally 1,389 (31 December 2018: 1,413) employees as of 31 December 2019.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

Financial reporting standards

The Company maintains its legal books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation.

The financial statements of the Group have been prepared in accordance with the Turkish Financial Reporting Standards, ("TFRS") and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") in line with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board of Turkey ("CMB") on June 13, 2013 which is published on Official Gazette numbered 28676.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

The financial statements are presented in accordance with "Announcement regarding with TAS Taxonomy" which was published on 15 April 2019 by POA and the format and mandatory information recommended by CMB.

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

The company's functional and presentation currency is accepted as TRY.

Going concern

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

Comparatives of prior periods' financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company at 31 December 2019 has been provided with the comparative financial information of 31 December 2018 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the period between 1 January and 31 December 2019 have been provided with the comparative financial information, for the period between 1 January 2018 and 31 December 2018.

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 POA as of 1 January 2019 and related to its own activity.

(a) The new standards, amendments and interpretations which are effective as at 31 December 2019 are as follows:

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

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

- TFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15, 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The effects of the amendment are explained in the related notes and accounting policies.

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

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 Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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

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

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

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

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

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

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

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments and interpretations in the standards (Continued)

(b) The new standards, amendments and interpretations which are not yet effective as at 31 December 2019 are as follows:

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

  i) Use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting.
  ii) Clarify the explanation of the definition of material; and
  iii) Incorporate some of the guidance in TAS 1 about immaterial information.

- Amendments to TFRS 3 - definition of a business; Effective from annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. The amendments will not have an impact on the financial position or performance of the Company.

- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform; effective from annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

- IFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The amendments will not have an impact on the financial position or performance of the Company.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies

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

Cash and cash equivalents

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

Trade receivables, impairment loss and expected credit losses

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

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

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

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

The Company measures the allowance for trade receivables at an amount equal to the "expected life-time credit losses" (except for realized impairment losses) where the trade receivables are not impaired for some reason. Expected credit losses are a weighted estimate of the likelihood of credit losses over the expected life of a financial instrument.

In the calculation of expected credit losses, the Company takes into account past credit loss experience as well as forecasts for the future.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

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

Inventories

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

Trade payables

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

Property, plant and equipment

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

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 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial assets

Classification and Measurement

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

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

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

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

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

Share premium

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Share capital and dividends

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

Taxes on income

Taxes include current period income taxes and deferred taxes.

Current period income tax

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

Deferred tax

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

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

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

Current and deferred income 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Revenue recognition

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

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

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

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- Company can identify each party's rights regarding the goods or services to be transferred,
- Company can identify the payment terms for the goods or services to be transferred,
- The contract has commercial susbtance,
- It is probable that Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer

Goods & services sales

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

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

The vehicles with repurchase commitments are classified in tangible assets (Note 10). The vehicles are amortised during the repurchase commitment period. For export sales significant risk and rewards are transferred to the buyer on FAS, "Final Assignment to Ship" terms. Exported service sales are recorded when the service is delivered and the amount of revenue can be measured reliably.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

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

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

The Company is an agent if the performance obligation is to act as an intermediary for the provision of goods or services by other parties and does not reflect the revenue for the performance obligation to the financial statements.

The Company pays customer premiums to its dealers based on their performance results. Amounts calculated as of the balance sheet date are recognized in other payables in the balance sheet and in revenue as discounts in revenue in the statement of profit or loss

The Company provides legal warranty commitment to its customers depending on the type of goods and the location of sale between 2-3-4 years. These legal warranty commitments are mandatory by regulations, do not have a separate price apart from the good and are not separately sold.

Revenue from extended warranty and maintenance package

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of significant accounting policies (Continued)

Dividend and interest income

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

Foreign currency transactions and balances

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

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

	TRY/USD	TRY/EUR	TRY/GBP
31 December 2019	**5,9402**	**6,6506**	**7,7765**
31 December 2018	5,2609	6,0280	6,6528

Financial instruments and financial risk management

Credit risk

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Price risk

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

Liquidity risk

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

Interest rate risk

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

Funding risk

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

Foreign exchange risk

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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 earnings before interest tax and depreciation". This ratio is calculated as net financial debt divided by EBITDA (earnings before interest tax and depreciation) of last four quarters. Net financial debt is calculated as total short and long term borrowings minus cash and cash equivalents. The company management expects, this ratio not to exceed 3.5.

	31 December 2019	31 December 2018
Net financial debt	3,005,094	3,090,045
EBITDA (*)	3,198,016	2,854,076
Net financial debt / EBITDA (*)	**0.94**	**1.08**

(*) EBITDA (Earnings before tax depreciation and interest) covering the last four quarters.

Fair value of financial instruments

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

- In the principal market for the asset or liability or

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

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial assets

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

Financial liabilities

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

Cash flow hedge accounting

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

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

Investments accounted for by the equity method

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

Borrowings and borrowing costs

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

Provision for employee benefits

a) Defined benefit plans

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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

b) Defined contribution plans

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" is composed of the unused vacation days accrued in the period incurred and if the impact is material, it is also discounted.

Provisions

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

Provisions for sales premium

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

Warranty provisions

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).

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 transaction with the related party is the transfer of resources, services or liabilities between a reporting entity and a related party, regardless of whether or not it is for a fee.

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).

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Earnings per share

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

Reporting of cash flows

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

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

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

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

Contingent assets and liabilities

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

Subsequent events

Subsequent events and announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the statement of financial position date and the date when the statement of financial position is authorized for issue. In the case that events requiring an adjustment to the financial statements occur subsequent to the statement of financial position date, the Company makes the necessary corrections on the financial statements (Note 36).

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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Government grants and incentives

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

2.4 Accounting policies, changes in accounting estimates and errors

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

The Company applied first time application requirements of TFRS 16 "Leases" out of the new standards, amendments and interpretations effective from 1 January 2019 in line with the requirement of transition of the related standards.

The effects of this standard-related accounting policy change and the first-time implementation of the relevant standards are as follows:

TFRS 16 "Leases" Standard

Company - As a Lessee

At inception of a contract, the Company shall assess whether the contract is, or contains, a lease. 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.

To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company shall assess whether, throughout the period of use, the customer has both of the following:

- The contract includes an identified asset (identification of an asset in a clear or implicitly specified form in the contract),

- A capacity portion of an asset is an identified asset if it is physically distinct and represents substantially all of the capacity of the asset (the asset is not an identified asset if the vendor has a fundamental right to substitute the asset for the duration of its use and obtain an economic benefit from it)

- The Company has the right to obtain almost all of the economic benefits that will be derived from the use of the identified asset.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

- The right to direct the use of the identified asset. The Company has the right to direct the use of an identified asset throughout the period of use only if either:

  a) The Company has the right to direct how and for what purpose the asset is used throughout the period of use
  b) the relevant decisions about how and for what purpose the asset is used are predetermined and:
     i) The Company has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions or
     ii) The Company designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use

The Company recognizes right of use asset and lease liability at the start date of lease after evaluation of aforementioned criterias.

Right of use asset

At the commencement date, the Company shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

a) The amount of the initial measurement of the lease liability,
b) Any lease payments made at or before the commencement date, less any lease incentives received;
c) Any initial direct costs incurred by the Company
d) An estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

To apply a cost model, the Company shall measure the right-of-use asset at cost:

a) Less any accumulated depreciation and any accumulated impairment losses and
b) Adjusted for any remeasurement of the lease liability

The Company shall apply the depreciation requirements in TAS 16 Property, Plant and Equipment in depreciating the right-of-use asset.

The Company shall apply TAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Lease liability

At the commencement date, the Company shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined incremental borrowing interest rate shall be used for discounting.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

a) Fixed payments, less any lease incentives receivable;
b) Variable lease payments that depend on an index or a rate, initially measured using the index or Rate as at the commencement date
c) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company shall measure the lease liability by:

a) Increasing the carrying amount to reflect interest on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made; and
c) Remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Extension and early termination options

The lease liability is determined by considering the extension and early termination options in the contracts. Most of the extension and early termination options included in the contracts are composed of the options that are jointly applicable by the Company and the lessor. The Company determines the lease term by the extension of the lease, if such extension and early termination options are at the Company's discretion and the use of the options is reasonably certain. If there is a significant change in the circumstances, the evaluation is reviewed by the Company.

Variable lease payments

Lease payments arising from some of the Company's lease agreements consist of variable rent payments. These variable lease payments, which are not included in TFRS 16, are recorded as rent expense in the related period in the income statement.

Practical expedient

Contracts for short-term lease agreements with a rental period of less than 12 months and information technology equipment leases (mainly printers, laptops, mobile telephones, etc.), which are determined as low value by the Company, have been evaluated under the exception of the TFRS 16 Leases Standard anf these payments are recognized as an expense in the period in which they are incurred.

Company - As Lessor

The Company has no significant activity as a lessor.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

Transition to TFRS 16 "Leases"

The Company applied TFRS 16, "Leases", which superseded TAS 17, "Leases", and accounted for in the financial statements by using "cumulative effect method" on the transition date of 1 January 2019. In accordance with the simplified transition method defined in standard, no restatement has been required in the comparative information of the financial statement and has no impact on retained earnings.

On first time adoption of TFRS 16 "Leases", the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of TAS 17 "Leases" before 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of the transition date. The right to use assets are accounted for at an amount equal to the lease obligations (adjusted for the amount of prepayed or accrued lease payments) within the scope of simplified transition application in the related standard.

The reconciliation of the operating lease agreements followed under TAS 17 prior to the first application date and t the lease liabilities recognized under TFRS 16 in the financial statements as of 1 January 2019 is as follows

	1 January 2019
Operating lease commitments disclosed in accordance with TAS 17	**143,048**
- Short-term leases (-)	(3,942)
- Low value leases (-)	-
- Contracts reassessed as service agreements (-)	-
- Adjustments as a result of extension and termination options	-
Lease liability recognised under TFRS 16 (not discounted)	**139,106**
Lease liability recognised under TFRS 16 (discounted)	**111,103**
- Short-term lease liability	33,370
- Long-term lease liability	77,733

The incremental annual borrowing rate applied to the lease liabilities on 1 January 2019 was 4.60% for Euro and 28% for TRY.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

The details of the right-of-use assets recognised by each asset type in financial statements as of 31 December 2019 and 1 January 2019 are as follows:

	31 December 2019	**1 January 2019**
Building	38,942	50,003
Machinery and equipment	47,481	63,310
Vehicles	13,291	23,715
Total right-of-use assets	**99,714**	**137,028**

The practical expedients applied in transition

Within the scope of the transition, the following practices defined in TFRS 16 are adopted within the scope of the Company policies.

a) The leases which have a lease term of 12 months or less are exempted. Although the rental period is 1 year or less; The Company has an option to extend the lease and is reasonably certain that it will use the extension right option (for example, if there is a significant amount of private cost investment related to the asset subject to the leasing and that the investment has been amortized for more than 1 year). the agreement is included in the scope of TFRS 16.

b) Low value leases mainly printer, laptop, mobile phone, etc. information technology equipment) are excluded.

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 under 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).

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Significant accounting estimates and decisions (Continued)

(d) In determination of the legal case provisions, the possibilities of losing the case and the liabilities that will arise if the case is lost is evaluated by the Company's Legal Counsellor and by the Management team taking into account expert opinions. The management determines the amount of the provisions based on the best forecasts.

(e) In calculation of the warranty provision, the Company considers the historical warranty expenses incurred addition to planned technical and financial improvements to estimate the possible warranty expense per vehicle. Provision calculations are realistically performed and based on vehicle quantity, warranty period and historical claims (Note 13).

(f) Deferred tax assets are recognized when the occurrence of taxable profit is probable in the forthcoming years. Deferred tax asset is calculated over any temporary differences in cases when the occurrence of taxable profit is probable, taken into consideration of tax advantages obtained within the context of investment incentive certificates. Deferred tax asset is recorded as of 31 December 2019 and 31 December 2018 since presumptions that the Company will have taxable profit in the forthcoming periods are found to be sufficient (Note 24).

(g) The Company recognizes depreciation and amortization for its property, plant and equipment and intangibles by taking into account their useful lives that are stated in Note 2 (Notes 10 and 11).

(h) Development costs related to continuing projects are capitalized and the Company management perform impairment test regarding those capitalized costs annually. As of 31 December 2019 and 31 December 2018, there is no impairment determined related to development costs in progress (Note 11).

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.

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

4. CASH AND CASH EQUIVALENTS

The maturity period of time deposits is up to three months and there is no blockage/restriction on cash and cash equivalents. The weighted average interest rate for foreign currency denominated time deposits is 0.17% (31 December 2018: 1.85%) and the weighted average interest rate for the TRY time deposits is 10.99% (31 December 2018: 23.48%).

	31 December 2019	31 December 2018
Banks - TRY time deposits	2,615,719	875,225
Banks - foreign currency time deposits	544,884	486,369
Banks - TRY demand deposits	36,427	27,296
Banks - foreign currency demand deposits	3,199	2,131
Cash and cash equivalents in the cash flow statement	**3,200,229**	**1,391,021**
Interest income accrual	2,723	1,751
	3,202,952	**1,392,772**

5. FINANCIAL ASSETS

	31 December 2019		31 December 2018	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Financial assets at fair value through other comprehensive income				
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0.59	22,355	0.59	12,408
		22,355		**12,408**

(*) The Company's shareholding in Otokar was stated at market value at 31 December 2019 and 31 December 2018, which is assumed to approximate its fair value.

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

6. FINANCIAL LIABILITIES

Short-term financial liabilities

Bank borrowings

	31 December 2019		31 December 2018	
	Effective interest rate (%)	Amount	Effective interest rate (%)	Amount
- EUR	0.82	2,565,458	0.74	2,020,474
- TRY	-	23,755	-	10,332
		2,589,213		**2,030,806**

Short-term portion of long-term financial liabilities

Bank borrowings

- EUR	1.71	1,025,728	1.61	773,457
		1,025,728		**773,457**

Lease liabilities

- EUR	4.60	23,361	-	-
- TRY	28	9,808	-	-
		33,169		**-**
		1,058,897		**773,457**
Total short-term financial liabilities		**3,648,110**		**2,804,263**

Long-term financial liabilities

Bank borrowings

	31 December 2019		31 December 2018	
	Effective interest rate (%)	Amount	Effective interest rate (%)	Amount
- EUR	1.81	2,503,852	1.61	1,678,554
		2,503,852		**1,678,554**

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

6. FINANCIAL LIABILITIES (Continued)

Lease liabilities

	31 December 2019		31 December 2018	
	Effective interest rate (%)	**Amount**	**Effective interest rate (%)**	**Amount**
- EUR	4.60	34,917	-	-
- TRY	28	21,167	-	-
		56,084		**-**
Total long-term financial liabilities		**2,559,936**		**1,678,554**

The payment schedules of long-term bank borrowings as of 31 December 2019 and 31 December 2018 are as follows:

Payment period	**31 December 2019**	**31 December 2018**
2020	-	670,934
2021	1,074,945	486,232
2022	699,547	243,671
2023	411,161	186,997
2024	175,768	90,720
2025	71,997	-
2026	70,434	-
	2,503,852	**1,678,554**

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TRY3,043,957 (31 December 2018: TRY2,201,762) (Note 13).

The movement of financial liabilities as of 31 December 2019 and 2018 is as follows:

	2019	**2018**
1 January	4,482,817	3,604,047
Effect of TFRS 16 (Note 2)	111,103	-
Effect of cash flows	1,069,898	(292,287)
Unrealised foreign exchange differences	510,851	1,171,947
Changes in TFRS 16 - lease liabilities	13,714	-
Change in accrual of interest	19,663	(890)
31 December	**6,208,046**	**4,482,817**

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

7. TRADE RECEIVABLES AND PAYABLES

	31 December 2019	31 December 2018
Short - term trade receivables		
Trade receivables	1,572,755	1,086,298
Doubtful receivables	4,533	4,533
Less: unearned credit finance income	(14,792)	(27,372)
	1,562,496	**1,063,459**
Less: provision for doubtful receivables	(4,533)	(4,533)
	1,557,963	**1,058,926**

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2018: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2018: 70 days) and discounted by 1.27% monthly effective interest rate (31 December 2018: 2.23%).

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

	31 December 2019	31 December 2018
Long - term trade receivables		
Deposits and guarantees given	2,903	2,954
	2,903	**2,954**

	31 December 2019	31 December 2018
Trade payables		
Trade payables	3,690,149	3,364,101
Less: unearned credit finance expense	(29,283)	(44,981)
	3,660,866	**3,319,120**

The average turnover of trade payables is 60 days (31 December 2018: 60 days) and discounted by 1.27% monthly effective interest rate (31 December 2018: 2.23%).

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

The maximum exposure of the Company to credit risk as of 31 December 2019 and 31 December 2018 is as follows:

	Trade receivables		Other receivables		Deposit
31 December 2019	**Related party**	**Other**	**Related party**	**Other**	**in bank**
The maximum of credit risk exposed at the reporting date (Note 26, 7, 8, 4)	2,547,130	1,557,963	-	1,870	3,200,229
- The maximum of credit risk covered by guarantees	235,000	1,556,766	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	2,502,170	1,555,514	-	1,870	3,200,229
Net book value of financial assets that are overdue but not impaired	44,961	2,449	-	-	-
- Amount of risk covered by guarantees	-	1,252	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533	-	-	-
- Provision for impairment (-)	-	(4,533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

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

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

7. TRADE RECEIVABLES AND PAYABLES (Continued)

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

	Trade receivables	
31 December 2019	**Related party**	**Other**
1 - 30 days overdue	36,025	1,130
1 - 3 months overdue	4,037	611
3 - 12 months overdue	4,899	693
1 - 5 years overdue	-	15
	44,961	**2,449**
Risk covered by guarantees	-	1,252

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

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

8. OTHER RECEIVABLES AND PAYABLES

Other receivables	**31 December 2019**	**31 December 2018**
Other miscellaneous receivables	1,870	2,788
	1,870	**2,788**

Other payables	**31 December 2019**	**31 December 2018**
Taxes and funds payable	26,694	19,624
Sales premium accruals	14,478	8,033
Other	13,369	7,004
	54,541	**34,661**

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

9. INVENTORIES

	31 December 2019	31 December 2018
Raw materials	838,126	638,408
Finished goods	230,731	412,139
Goods in transit	420,851	328,890
Import vehicles	27,530	90,427
Vehicle spare parts	239,680	277,117
Spare parts	47,635	40,682
Other	39,511	99,829
	1,844,064	**1,887,492**
Less: provision for impairment of finished goods and vehicle spare parts	(16,665)	(22,847)
	1,827,399	**1,864,645**

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:

	2019	2018
1 January	**22,847**	**3,906**
Change within the period	(6,182)	18,941
31 December	**16,665**	**22,847**

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

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

10. PROPERTY, PLANT AND EQUIPMENT

1 January 2019	Land	Land improvements	Buildings	Machine and equipment	Models and moulds	Fixture and furniture	Vehicles (*)	Constructions in progress	Total
Cost	12,269	188,904	1,000,623	2,863,335	2,890,202	449,351	68,226	132,050	7,604,960
Accumulated depreciation	-	(83,462)	(432,266)	(1,411,727)	(1,459,374)	(283,565)	(11,819)	-	(3,682,213)
Net book value	**12,269**	**105,442**	**568,357**	**1,451,608**	**1,430,828**	**165,786**	**56,407**	**132,050**	**3,922,747**
For the period ended 31 December 2019									
Opening net book value	12,269	105,442	568,357	1,451,608	1,430,828	165,786	56,407	132,050	3,922,747
Additions	-	8,546	16,953	337,286	588,641	48,613	23,577	87,327	1,110,943
Transfers	-	-	265	13,113	74,660	265	1,387	(89,690)	-
Disposals	-	(8)	(1,232)	(5,649)	(2,675)	(2,376)	(3,547)	-	(15,487)
Depreciation charge	-	(6,581)	(30,607)	(167,870)	(350,739)	(32,449)	(4,921)	-	(593,167)
Disposals from accumulated depreciation	-	3	577	5,402	1,991	2,300	1,239	-	11,512
Closing net book value	**12,269**	**107,402**	**554,313**	**1,633,890**	**1,742,706**	**182,139**	**74,142**	**129,687**	**4,436,548**
31 December 2019									
Cost	12,269	197,442	1,016,609	3,208,085	3,550,828	495,853	89,643	129,687	8,700,416
Accumulated depreciation	-	(90,040)	(462,296)	(1,574,195)	(1,808,122)	(313,714)	(15,501)	-	(4,263,868)
Net book value	**12,269**	**107,402**	**554,313**	**1,633,890**	**1,742,706**	**182,139**	**74,142**	**129,687**	**4,436,548**

The Company compared the borrowing cost of investment loans in foreign currency to the market loan interest denominated in TRY and foreign exchange differences. No interest costs has been recognized under property, plant and equipment according to the cumulative approach within the context of TAS 23 as of 31 December 2019 (31 December 2018: 9,355 TRY).

There is no collateral, pledge or mortgage on tangible assets as of 31 December 2019 and 2018.

(*) 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 TRY63,655 (31 December 2018: TRY46,359).

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

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The allocation of depreciation expense as of 31 December 2019 and 2018 is as follows:

	31 December 2019	**31 December 2018**
Cost of production (Note 18)	558,703	431,261
Research and development expenses (Note 19)	18,400	17,817
General administrative expenses (Note 19)	11,474	9,387
Marketing expenses (Note 19)	3,075	3,028
Associated with construction in progress	1,515	5,242
	593,167	**466,735**

11. INTANGIBLE ASSETS

1 January 2019	**Rights**	**Development cost**	**Development cost in progress**	**Other**	**Total**
Cost	72,230	1,037,848	162,777	7,822	1,280,677
Accumulated amortisation	(57,253)	(393,622)	-	(6,460)	(457,335)
Net book value	**14,977**	**644,226**	**162,777**	**1,362**	**823,342**
For the period ended 31 December 2019					
Opening net book value	14,977	644,226	162,777	1,362	823,342
Additions	23,962	3,511	119,053	81	146,607
Transfers	-	-	-	-	-
Amortisation charge	(14,782)	(123,688)	-	(283)	(138,753)
Closing net book value	**24,157**	**524,049**	**281,830**	**1,160**	**831,196**
31 December 2019					
Cost	96,192	1,041,359	281,830	7,903	1,427,284
Accumulated amortisation	(72,035)	(517,310)	-	(6,743)	(596,088)
Net book value	**24,157**	**524,049**	**281,830**	**1,160**	**831,196**

There is no fully depreciated intangible assets as of 31 December 2019. As of 31 December 2019, there is no capitalized interest costs and foreign exchange differences in accordance with TAS 23 (31 December 2018: None).

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

11. INTANGIBLE ASSETS (Continued)

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

The allocation of amortisation charges of intangible assets relating to 31 December 2019 and 2018 is as follows:

	31 December 2019	**31 December 2018**
Cost of production (Note 18)	126,162	92,758
General administrative expenses (Note 19)	9,157	6,236
Research and development expenses (Note 19)	2,553	2,798
Marketing expenses (Note 19)	855	653
Associated with construction in progress	26	23
	138,753	**102,468**

12. PREPAID EXPENSES

Short - term prepaid expenses	**31 December 2019**	**31 December 2018**
Advances given for inventorie	153,224	52,664
Other prepaid expenses (*)	25,158	21,711
	178,382	**74,375**

Long - term prepaid expenses	**31 December 2019**	**31 December 2018**
Advances given for investments (**)	178,319	365,428
Other prepaid expenses (*)	25,892	16,992
	204,211	**382,420**

(*) The prepaid expenses related to operating leases are classified under right of use assets as of 1 January 2019 under TFRS 16.

(**) Advances given for investments are related to the Company's new vehicle investments. TRY148,753 (31 December 2018: TRY250,412) is given to domestic vendors as mould advances and TRY29,566 (31 December 2018: TRY115,016) is the advance given for the new project investments.

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

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES

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

Short - term provisions

	31 December 2019	31 December 2018
Warranty expense provision	88,266	107,972
Provisions for sales premium (*)	32,836	47,255
	121,102	**155,227**

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

Long - term provisions

	31 December 2019	31 December 2018
Warranty expense provision	120,902	86,354
Provisions for lawsuits	53,838	50,326
	174,740	**136,680**

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

	2019	2018
1 January	**50,326**	**46,660**
Paid during the period	(7,176)	(7,418)
Additions during the period	10,688	11,084
31 December	**53,838**	**50,326**

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

	2019	2018
1 January	**194,326**	**231,525**
Paid during the period	(198,414)	(143,625)
Additions during the period (Note 19)	213,256	106,426
31 December	**209,168**	**194,326**

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

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

Letters of guarantee and letters of credit	31 December 2019	31 December 2018
Letters of guarantee given to financial institutions due to bank loans	3,043,957	2,201,762
Letters of guarantee given to customs	71,097	64,871
Letters of guarantees given to other parties	14,977	15,110
	3,130,031	**2,281,743**

Letters of guarantee given

	31 December 2019		31 December 2018	
	Original currency	TRY amount	Original currency	TRY amount
EUR	467,753	3,110,835	375,527	2,263,678
USD	-	-	13	68
TRY	19,196	19,196	17,997	17,997
		3,130,031		**2,281,743**

The allocation of collaterals, pledges and mortgages as of 31 December 2019 and 31 December 2018 as follows:

Collaterals, pledges and mortgages given by the Company	31 December 2019	31 December 2018
A. Total amount of collaterals/pledges/mortages given for its own legal entity	3,130,031	2,281,743
B. Total amount of collaterals/pledges/mortgages given for participations included in entire consolidation	-	-
C. Total amount of collaterals/pledges/mortgages given to assure debts of third parties, for the purpose of conducting the business activities	-	-
D. Total amount of other collaterals/pledges/mortgages given		
i Total amount of collaterals/pledges/mortgages given for the parent company	-	-
ii. Total amount of collaterals/pledges/mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals/pledges/mortages given for third parties that do not fall into C section	-	-
	3,130,031	**2,281,743**

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

13. PROVISION, CONTINGENT ASSETS AND LIABILITIES (Continued)

As of 31 December 2019 and 31 December 2018, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

Letters of guarantee received

	31 December 2019		31 December 2018	
	Original currency	TRY amount	Original currency	TRY amount
TRY	146,014	146,014	99,778	99,778
EUR	3,035	20,188	12,955	78,093
USD	122	722	251	1,320
		166,924		**179,191**

Other

The long-term bank borrowing agreements related to the investments require the Company to comply with certain financial ratios. Such financial ratios are met by the Company as of 31 December 2019 and 31 December 2018.

14. COMMITMENTS

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

a) The Company has signed a 1-year loan commitment agreement with İşbank amounting to EUR 100,000,000 in 2019. With this agreement the company committed to pass the export value of EUR 200,000,000 through its accounts. As of 31 December 2019, this commitment have been fulfilled.

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

- With 8 months term credit amounting to Euro 110,000,000 used in June 2019 an export amount of Euro 110,000,000,
- With 8 months term credit amounting to Euro 50,000,000 used in July 2019 an export amount of Euro 50,000,000,
- With 8 months term credit amounting to Euro 40,000,000 used in October 2019 an export amount of Euro 40,000,000,
- With 8 months term credit amounting to Euro 105,000,000 used in November 2019 an export amount of Euro 105,000,000,
- With 8 months term credit amounting to Euro 30,000,000 used in December 2019 an export amount of Euro 30,000,000,
- With 2 years term credit amounting to Euro 44,000,000 used in December 2019 an export amount of Euro 44,000,000.

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

15. EMPLOYEE BENEFITS

Liabilities for employee benefit obligations

	31 December 2019	31 December 2018
Salaries and social charges payable	125,962	72,350
Social security premiums payable	35,681	34,523
Withholding income tax payable	53,977	38,877
Other	4,653	3,861
	220,273	**149,611**

Provision for employee benefits

	31 December 2019	31 December 2018
Provision for employment termination benefits	256,208	170,925
Provision for unused vacation pay liability	31,676	25,443
	287,884	**196,368**

Provision for employment termination benefits

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

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

The amount payable consists of one month's salary limited to a maximum of full TRY6,730.15 for each year of service as of 1 January 2020 (31 December 2018: Full TRY6,017.60).

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.

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

15. EMPLOYEE BENEFITS (Continued)

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

	31 December 2019	31 December 2018
Net discount rate (%)	4.67	5.65
Turnover rate to estimate the probability of retirement (%)	95.73	96.05

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Since the Company calculates the reserve for employee benefits once a year, the maximum amount of full TRY6,730.15 which was effective as of 1 January 2020 (31 December 2018: Full TRY6,017.60) has been used in the calculations.

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

	2019	2018
1 January	**170,925**	**131,726**
Interest cost	28,613	15,504
Current year service cost	71,201	56,108
Paid during the period	(16,757)	(15,260)
Actuarial gains	2,226	(17,153)
31 December	**256,208**	**170,925**

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of 31 December 2019 is below:

	Net discount rate		Turnover rate related to the probability of retirement	
Sensitivity level	**(%) 0,5 base decrease**	**(%) 0,5 base increase**	**(%) 0,5 base decrease**	**(%) 0,5 base increase**
Rate (%)	(4,2)	(5,2)	95,2	96,2
Change in provision for employee benefits	17,725	(16,180)	(5,550)	5,850

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

16. OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
VAT to be deducted (*)	704,166	741,115
Deferred VAT	107,891	149,616
Prepaid taxes and withholding	21,501	15,643
Other	7,544	13,318
	841,102	**919,692**

(*) VAT to be deducted includes export VAT receivables related to November and December 2019. VAT return for November amounting to TRY279,291 has been collected in January 2020.

17. EQUITY

The composition of the Company's paid-in capital as of 31 December 2019 and 31 December 2018 is as follows:

Shareholders	**Share group**	**31 December 2019**	**Shareholders percentage (%)**	**31 December 2018**	**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 Deutschland Holding Gmbh	C	143,997	41.04	143,997	41.04
Vehbi Koç Vakfı	A	3,559	1.01	3,559	1.01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3,259	0.93	3,259	0.93
Other (Publicly traded)	A	62,786	17.89	62,786	17.89
		350,910	**100**	**350,910**	**100**
Inflation adjustment to share capital		**27,920**		**27,920**	
Inflation adjusted paid in capital		**378,830**		**378,830**	

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

There are 35,091,000,000 unit of shares (31 December 2018: 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 TRY302,764 as of 31 December 2019 (31 December 2018: TRY370,599).

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 13 June, 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 1 February, 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 15 March 2019, the Company has decided to distribute dividends at the rate of 243% gross (net %206.55), with a total amount of TRY852,711 as full TRY2.43 gross (Kr 206.55 net) for each share with a value of full TRY1 and the Company made the dividend payment in April 2019. In accordance with the Ordinary General Assembly Meeting dated as of 14 November 2019, the Company has decided to distribute dividends at the rate of 123% gross, with a total amount of TRY431,620 as full TRY1.23 gross (Kr 104.55 net) for each share with a value of full TRY1 and the Company made the dividend payment in November 2019. (In April 2018 full TRY 2.28 of the gross TRY1 share (net Kr 193.80) will be %228 rate TRY 800,075 and in November 2018, full TRY1.15 of the gross TRY1 share (net Kr 97.75) will be %115 rate TRY403,547; total of TRY1,203,622 cash dividend was distributed).

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

17. EQUITY (Continued)

In accordance with Communiqué No: II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets", equity schedule at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
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	20,309	10,859
Losses on cash flow hedge	(705,427)	(794,287)
Losses on remeasurements of defined benefit plans	(2,060)	(279)
Restricted reserves	***302,764***	***370,599***
- Legal reserves	302,764	370,599
Retained earnings	***2,711,013***	***2,244,313***
- Inflation adjustment to equity	428,301	428,301
- Extraordinary reserves	2,282,712	1,816,012
Net income for the period	**1,959,484**	**1,683,196**
Total equity	**4,664,921**	**3,893,239**

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended 31 December 2019 and 31 December 2018 are as follows:

31 December 2019	Historical values	Adjusted values	Equity inflation adjustment differences
Issued capital	350,910	378,830	27,920
Legal reserves	302,764	361,517	58,753
Extraordinary reserves	2,282,712	2,651,857	369,145
Share premium	8	361	353
Other reserves	-	50	50
	2,936,394	**3,392,615**	**456,221**

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

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

17. EQUITY (Continued)

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

Otokar shares which are publicly traded in BIST are valued at their closing price as of 31 December 2019 and 31 December 2018. As of 31 December 2019, fair value change amounting to TRY9,450 net of deferred tax, (31 December 2018: TRY(4,749)) 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:

	2019	2018
1 January	**(783,707)**	**(501,513)**
Gains/(losses) from financial assets measured at fair value through other comprehensive income	9,450	(4,749)
Actuarial gains/(losses)	(1,781)	13,722
Gains/(losses) on cash flow hedges	88,860	(291,167)
31 December	**(687,178)**	**(783,707)**

18. REVENUE AND COST OF SALES

	2019	2018
Export sales	33,375,426	27,303,441
Domestic sales	6,571,460	6,686,164
Other sales	192,863	178,762
Less: discounts	(930,730)	(876,337)
	39,209,019	**33,292,030**

Units of vehicle sales

	2019			2018		
	Domestic sales	**Export sales**	**Total sales**	**Domestic sales**	**Export sales**	**Total sales**
Transit Custom	3,394	175,985	179,379	4,690	168,174	172,864
Transit	12,972	116,805	129,777	16,350	120,154	136,504
Transit Courier	16,768	38,941	55,709	19,659	38,553	58,212
Passenger Vehicles	11,460	53	11,513	18,987	160	19,147
Ford Trucks	2,841	2,671	5,512	3,526	1,817	5,343
Ranger	821	-	821	1,496	34	1,530
Transit Connect	208	-	208	1,060	-	1,060
	48,464	**334,455**	**382,919**	**65,768**	**328,892**	**394,660**

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

18. REVENUE AND COST OF SALES (Continued)

Summaries of cost of production as of 31 December 2019 and 2018 are as follows:

	2019	2018
Cost of raw material	(29,476,279)	(25,007,429)
Production overhead costs	(1,737,003)	(1,478,408)
Amortization expenses (Notes 10, 11 and 33)	(714,539)	(524,019)
Changes in finished goods	(175,226)	178,679
Total production cost	**(32,103,047)**	**(26,831,177)**
Cost of trade goods sold	(3,090,755)	(3,002,282)
Total cost of sales	**(35,193,802)**	**(29,833,459)**

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

	2019	2018
Research and development expenses		
Personnel expenses	(206,444)	(172,800)
Project costs	(122,421)	(122,119)
Mechanization expenses	(51,310)	(40,315)
Depreciation and amortization expenses (Notes 10, 11 and 33)	(22,954)	(20,615)
Other	(16,454)	(12,719)
	(419,583)	**(368,568)**

	2019	2018
Marketing expenses		
Warranty expenses (Note 13)	(213,256)	(106,426)
Personnel expenses	(129,234)	(105,385)
Advertising expenses	(99,704)	(113,153)
Vehicle transportation expenses	(39,676)	(47,590)
Spare parts transportation and packaging expenses	(39,397)	(34,020)
Export expenses	(31,097)	(20,206)
Depreciation and amortization expenses (Notes 10, 11 and 33)	(14,278)	(3,681)
Dealer and service development expenses	(7,983)	(10,579)
Other	(74,477)	(66,178)
	(649,102)	**(507,218)**

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

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

	2019	**2018**
General administrative expenses		
Personnel expenses	(151,548)	(123,324)
Legal, consulting and auditing expenses	(50,231)	(37,315)
Grants and donations	(37,368)	(41,750)
New project administrative expenses	(28,111)	(22,854)
Depreciation and amortization expenses (Notes 10, 11 and 33)	(22,676)	(15,623)
Organization expenses	(22,311)	(21,995)
Repair, maintenance and energy expenses	(8,515)	(5,687)
Transportation and travel expenses	(7,231)	(6,825)
Duties, taxes and levies expenses	(7,061)	(3,601)
Other	(37,841)	(33,169)
	(372,893)	**(312,143)**

20. EXPENSES BY NATURE

The classification of expenses by nature for the periods ended at 31 December 2019 and 2018 is as follows:

	2019	**2018**
Raw material cost	(29,476,279)	(25,007,429)
Cost of trade goods sold	(3,090,755)	(3,002,282)
Financial expenses	(1,656,231)	(2,501,845)
Personnel expenses	(1,498,932)	(1,238,444)
Other operational expenses	(894,442)	(746,500)
Other expenses from operating activities	(785,389)	(566,898)
Depreciation and amortization expenses	(774,447)	(563,938)
Other overhead costs	(725,299)	(641,474)
Expense from investment accounted for by equity method	(933)	(94)
Expenses from investing activities	(714)	(3,855)
Changes in inventories	(175,226)	178,679
Total expenses	**(39,078,647)**	**(34,094,080)**

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

21. OTHER OPERATING INCOME/EXPENSES

Other operating income	2019	2018
Foreign exchange gains related to trade receivables and payables	337,840	304,957
Unearned financial income	212,193	185,498
License income	14,940	18,554
Rent income	13,422	8,222
Price difference and claim recovery	4,671	10,527
Commission income	3,932	4,653
Other	46,780	48,718
	633,778	**581,129**

Other operating expenses	2019	2018
Unearned financial expense	(533,692)	(341,463)
Foreign exchange losses related to trade receivables and payables	(243,331)	(223,322)
Other	(8,366)	(2,113)
	(785,389)	**(566,898)**

22. FINANCIAL INCOME

	2019	2018
Foreign exchange gains	1,054,803	1,876,846
Interest income	130,798	104,777
	1,185,601	**1,981,623**

23. FINANCIAL EXPENSES

	2019	2018
Foreign exchange losses	(1,539,611)	(2,420,188)
Interest expenses	(84,684)	(52,952)
Other	(31,936)	(28,705)
	(1,656,231)	**(2,501,845)**

24. TAX ASSETS AND LIABILITIES

Corporate Tax Law was amended by the Law No, 5520 dated 13 June, 2006. Law No, 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from 1 January , 2006. Accordingly, the corporate tax rate for the fiscal year 2019 is 22% (31 December 2018: %22). Corporate tax is payable on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc.) and corporate income tax deductions (e.g. research and development expenditures deduction). No further tax is payable unless the profit is distributed.

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

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

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

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

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

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

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

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

As of 31 December 2019, the Company utilised R&D incentive exemption amounting of TRY492,495 (31 December 2018: TRY554,087) in return for the legal tax.

24. TAX ASSETS AND LIABILITIES (Continued)

The Company realizes fixed asset investments with incentives within the scope of 2009 Decisions of the Council of Ministers on State Aid in Investments 2009 numbered 2009/15199 and 2012/3305, which regulates the investment legislation.

The investment projects in which the Company has completed its investment processes and continued to benefit from the contribution amounts to the investment deserved are as follows;

- An investment of TRY559,295 has been made between 2010 and 2013 for the Transit and Transit Custom model investments at Kocaeli Gölcük Plant. The investment contribution rate of this project is 30%.

- An investment of TRY1,300,573 has been made between 2013 and 2017 at Kocaeli Gölcük Plant for Transit expenditures. The investment contribution rate of this project is 50%.

- For the new model Transit Courier investment, which started production with the establishment of the Kocaeli Yeniköy Plant, an investment expenditure of TRY798,311 was made between 2013-2016. The contribution rate of the project is 40%.

- Eskişehir Plant has two incentive certificates related to engine and truck production. The Company received an investment incentive certificate for the new 6 and 4-cylinder Engine Production project to be used in Trucks and Transit vehicles worth of TRY187,379 in Eskişehir in 2013, and a second Investment Incentive Certificate for the Euro 6 Emission Truck Production project amounting to TRY331,362. The investment contribution rate of these projects is 40%.

Investment periods for the incentives of Eskişehir Factories have been completed and incentive closure process is continuing with the Ministry of Industry.

The Company's project which has ongoing investment process and continues to benefit from the investment contribution is as follows;

- In 2016, an investment incentive certificate amounting to TRY849,160 was obtained for the renovation and factory modernization investments of the Transit, Transit Courier and Transit Custom models at the Gölcük and Yeniköy plants. Investment expenditures are continuing within the scope of this project and the contribution rate of the project to investment is 40%.

With the decision of the Council of Ministers, 15 points were added to the investment contribution rates for the investments to be realized in 2017, and the 15 points advantage that was added to the existing investment contributions was extended with the decisions of the Council of Ministers for the investments of 2018 and 2019.

As of the date of the balance sheet, the investment expenditures amounting to TRY4,447,874 (31 December 2018: TRY3,560,573) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TRY264,575 (31 December 2018: TRY137,870) in the current year and this amount has been deducted from the total deferred tax asset.

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

24. TAX ASSETS AND LIABILITIES (Continued)

The Company's net tax position as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	**31 December 2018**
Current year corporate tax expense	(21,242)	(16,969)
Prepaid tax and withholding	9,764	8,439
Current years' profit tax (liability)	**(11,478)**	**(8,530)**

The taxation on income for the periods ended 31 December 2019 and 2018 are as follows

	2019	**2018**
Current year corporate tax expense	(21,242)	(16,969)
Current year tax effect of cash flow hedge(*)	24,530	(81,861)
Deferred tax charged to statement of profit or loss	6,023	20,914
Deferred tax (expense)/income	30,553	(60,947)
Continuing operations tax (income)/(expense)	**9,311**	**(77,916)**

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

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at 31 December 2019 and 2018 and current tax ratio based on income before tax is as follows:

	31 December 2019	**31 December 2018**
Income before tax	1,950,173	1,761,112
Effective tax rate	22 %	22 %
Current year tax expense	(429,038)	(387,445)
Research and development deductions	108,349	121,899
Investment incentive exemption	324,535	193,221
Other	5,465	(5,591)
	9,311	**(77,916)**

The Company calculates deferred income tax assets and liabilities by taking into account the effects of temporary differences arising from the different assessments between TFRS and statutory financial statements.

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 2019 are calculated with 22% tax rate for the temporary differences which will be realized in 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

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

24. TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at 31 December 2019 and 31 December 2018 using the current enacted tax rates is as follows:

	Cumulative temporary differences		**Deferred tax assets / (liabilities)**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Deferred tax assets				
Investment incentive tax asset	(5,007,169)	(4,190,692)	880,274	820,314
Expense accruals and other provision	(419,710)	(283,018)	90,754	60,838
Employee benefits provision	(256,208)	(170,925)	51,241	34,185
Warranty expense provision	(209,168)	(194,326)	43,599	41,961
Inventories	(81,053)	(79,505)	17,832	17,491
	(5,973,308)	**(4,918,466)**	**1,083,700**	**974,789**
Deferred tax liabilities				
Tangible and intangible assets	2,114,036	1,563,960	(422,807)	(312,792)
Income accruals and other	48,307	81,744	(10,747)	(17,822)
	2,162,343	**1,645,704**	**(433,554)**	**(330,614)**
Net deferred tax asset			**650,146**	**644,175**

The deferred tax movement table is presented below:

	1 January 2019	**Charged to statement of profit or loss as income/(expense)**	**Charged to comprehensive income statement as income/(expense)**	**31 December 2019**
Deferred tax liabilities				
Tangible and intangible assets	(312,792)	(110,015)	-	(422,807)
Income accruals and other provision	(17,822)	7,572	(497)	(10,747)
Deferred tax assets				
Investment incentive tax asset	820,314	59,960	-	880,274
Expense accruals and other	60,838	29,916	-	90,754
Provision for employee benefits	34,185	16,611	445	51,241
Warranty expense provision	41,961	1,638	-	43,599
Inventories	17,491	341	-	17,832
Deferred tax asset, net	**644,175**	**6,023**	**(52)**	**650,146**

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

24. TAX ASSETS AND LIABILITIES (Continued)

	1 January 2019	Charged to statement of profit or loss as income/(expense)	Charged to comprehensive income statement as income/(expense)	31 December 2019
Deferred tax liabilities				
Tangible and intangible assets	(291,918)	(20,874)	-	(312,792)
Income accruals and other	(15,686)	(2,385)	249	(17,822)
Deferred tax assets				
Investment incentive tax asset	764,963	55,351	-	820,314
Expense accruals and other provisions	86,416	(25,578)	-	60,838
Provision for employee benefits	26,345	11,271	(3,431)	34,185
Warranty expense provision	50,520	(8,559)	-	41,961
Inventories	5,803	11,688	-	17,491
Deferred tax asset, net	**626,443**	**20,914**	**(3,182)**	**644,175**

25. EARNINGS PER SHARE

	2019	2018
Net profit for the year	1,959,484	1,683,196
Weighted average number of shares with nominal	35,091,000,000	35,091,000,000
Earnings per share with nominal value of Kr 1 each	**5.58 Kr**	**4.80 Kr**

26. RELATED PARTY DISCLOSURES

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

The related party balances at 31 December 2019 and 31 December 2018 and the transactions with related parties during the year are as follows:

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

26. RELATED PARTY DISCLOSURES (Continued)

a) Receivables from related parties

i) Trade receivable from related parties

	31 December 2019	31 December 2018
Due from shareholders		
Ford Motor Company and its subsidiaries	1,953,440	1,580,589
	1,953,440	**1,580,589**
Due from group companies (*)		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	597,362	513,489
Other	1,967	1,166
	599,329	**514,655**
Less: unearned credit finance income	(5,639)	(12,981)
	2,547,130	**2,082,263**

(*) 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.

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

26. RELATED PARTY DISCLOSURES (Continued)

b) Payables to related parties

i) Trade payables to related parties

	31 December 2019	31 December 2018
Due to shareholders		
Ford Motor Company and its subsidiaries	702,729	513,781
	702,729	**513,781**
Due to group companies (*)		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	77,603	72,532
Ram Dış Ticaret A.Ş.	33,250	47,228
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	19,522	24,669
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	11,635	19,261
Eltek Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A.Ş.	10,763	-
Setur Servis Turistik A.Ş.	8,870	14,714
Ingage Dijital Pazarlama A.Ş.	6,918	3,838
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	4,821	3,873
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	3,482	2,763
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	348	1,507
Ram Sigorta Aracılık Hizmetleri A.Ş.	262	93
Other	5,904	2,069
	183,378	**192,547**
Less: unearned credit finance expense	(1,553)	(2,761)
	884,554	**703,567**

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

ii) Other payables to related parties

	31 December 2019	31 December 2018
Koç Holding A.Ş.	14,699	9,676
Koç Finansman A.Ş.	4,005	13,220
Yapı ve Kredi Bankası A.Ş.	1,913	8,425
	20,617	**31,321**

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

26. RELATED PARTY DISCLOSURES (Continued)

c) Sales to related parties

	2019	**2018**
Ford Motor Company (*)	32,403,630	26,673,909
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	1,625,290	1,618,047
Other	243	603
	34,029,163	**28,292,559**
Less: financial income from credit sales	(61,149)	(51,681)
	33,968,014	**28,240,878**

(*) 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

	2019			
	Material	**Service**	**Fixed assets**	**Total**
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	31,801	316,556	171	348,528
Ram Dış Ticaret A.Ş.	149,983	-	-	149,983
Eltek Elektrik Enerjisi İth. İhr. ve Toptan Tic. A.Ş.	-	66,460	-	66,460
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	45,004	21,022	66,026
Setur Servis Turistik A.Ş.	-	36,793	-	36,793
Koç Holding A.Ş. (*)	-	33,399	-	33,399
Ingage Dijital Pazarlama A.Ş.	-	32,213	484	32,697
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	15,475	12,311	27,786
Opet Petrolcülük A.Ş.	21,523	-	-	21,523
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	18,248	-	-	18,248
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	16,662	-	-	16,662
Koçtaş Yapı Marketleri Ticaret A.Ş.	15,374	-	41	15,415
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	12,127	-	12,127
Tanı Pazarlama İlet. Hiz. A.Ş.	-	746	-	746
Other	1,516	7,525	1,388	10,429
	321,567	**499,838**	**35,417**	**856,822**
Less: Financial expense from credit purchases	(11,043)	-	-	(11,043)
	310,524	**499,838**	**35,417**	**845,779**

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

26. RELATED PARTY DISCLOSURES (Devamı)

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

(**) Contains paid and accrued premium amounts for the period ended 31 December 2019 and period ended 2018 within the context of insurance policies signed with insurance companies through the agency of Ram Sigorta Aracılık Hizmetleri A.Ş.

	2018			
	Material	**Service**	**Fixed assets**	**Total**
Domestic purchases				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	28,140	308,865	789	337,794
Ram Dış Ticaret A.Ş.	171,415	-	-	171,415
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	32,809	21,470	54,279
Setur Servis Turistik A.Ş.	-	50,988	-	50,988
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	811	33,108	33,919
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	24,495	-	-	24,495
Koç Holding A.Ş. (*)	-	24,100	-	24,100
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	16,695	-	-	16,695
Koçtaş Yapı Marketleri Ticaret A.Ş.	13,245	-	55	13,300
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	12,722	-	12,722
Opet Petrolcülük A.Ş.	6,148	-	-	6,148
Tanı Pazarlama İlet. Hiz. A.Ş.	-	2,166	-	2,166
Ingage Dijital Pazarlama A.Ş.	-	13,764	-	13,764
Other	2,259	6,930	11,706	20,895
	262,397	**453,155**	**67,128**	**782,680**
Less: financial expense from credit purchases	(7,392)	-	-	(7,392)
	255,005	**453,155**	**67,128**	**775,288**

Material, vehicle and service purchases from abroad

	2019	**2018**
Ford Motor Company and its subsidiaries	15,591,722	13,929,034

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

26. RELATED PARTY DISCLOSURES (Continued)

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

	2019	2018
	111,770	110,504

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

	2019	2018
	14,940	18,554

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

	2019	2018
	35,484	40,223

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

Deposits in related banks	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş.		
- TRY time deposits	272,676	401,422
- Foreign currency time deposits	100,206	14,468
- TRY demand deposits	25,241	10,713
- Foreign currency demand deposits	574	992
	398,697	**427,595**

ı) Loans from related banks

	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş.	-	10,331
	-	**10,331**

i) Commission income

	2019	2018
Yapı ve Kredi Bankası A.Ş.	2,169	1,831
Koç Finansman A.Ş.	1,763	2,822
	3,932	**4,653**

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

26. RELATED PARTY DISCLOSURES (Continued)

j) Commission expense

	2019	**2018**
Koç Finansman A.Ş.	47,944	75,577
Yapı ve Kredi Bankası A.Ş.	38,266	46,018
	86,210	**121,595**

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.

k) Interest income

	2019	**2018**
Yapı ve Kredi Bankası A.Ş.	14,124	15,706

l) Dividend income

	2019	**2018**
Otokar Otomotiv ve Savunma Sanayi A.Ş.	422	410

m) Compensation of key management personnel

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

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

The total amount of compensation given to key management personnel of the Company as of 31 December 2019 is TRY41,952 (31 December 2018: TRY35,263).

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below summarizes the Company's exposure to foreign currency exchange rate risk at 31 December 2019 and 31 December 2018. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

31 December 2019

	TRY equivalent (Functional currency)	**USD**	**EUR**	**Other**
1. Trade receivables	2,343,969	10,022	343,494	-
2. Monetary financials assets (including cash and cash equivalents)	548,085	400	82,026	177
3. Other	424,397	25,230	41,279	-
4. Current assets (1 + 2 + 3)	**3,316,451**	**35,652**	**466,799**	**177**
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	**-**	**-**	**-**	**-**
7. Total assets (4 + 6)	**3,316,451**	**35,652**	**466,799**	**177**
8. Trade payables	939,804	39,549	104,807	895
9. Financial liabilities (*)	3,614,548	-	543,492	-
10. Other monetary liabilities	37,663	-	5,663	-
11. Short term liabilities (8 + 9 + 10)	**4,592,015**	**39,549**	**653,962**	**895**
12. Financial liabilities (*)	2,538,769	-	381,735	-
13. Other	1,447	-	218	-
14. Long term liabilities (12+13)	**2,540,216**	**-**	**381,953**	**-**
15. Total liabilities (11 + 14)	**7,132,231**	**39,549**	**1,035,915**	**895**
16. Net foreign currency (liabilities)/assets position (7 - 15)	**(3,815,780)**	**(3,897)**	**(569,116)**	**(718)**
17. Net monetary foreign currency (liabilities)/assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	**(4,238,730)**	**(29,127)**	**(610,177)**	**(718)**

(*) The Company's net foreign exchange position is mainly due to long - term Euro denominated loans obtained to fund its investments. The Company is hedging for the foreign currency exchange risk arising from its Euro denominated long-term loans with export agreements signed with Ford Motor Company. The TRY equivalent of such loans amount to TRY3,859,197 as of 31 December 2019 (31 December 2018: TRY2,632,800). As of 31 December 2019, the Company has a total of TRY50,715 (31 December 2018: TRY84,935) of the product to be issued.

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2018

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

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk

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

31 December 2019

	Profit/(loss) before taxation	
Appreciation/depreciation in foreign currency	**Increase by 10 (%)**	**Decrease by 10 (%)**
Change in USD against TRY		
USD net assets/(liabilities)	(2,315)	2,315
USD net hedged amount	-	-
USD net- gain/(loss)	**(2,315)**	**2,315**
Change in EUR against TRY		
EUR net (liabilities)/assets	(378,496)	378,496
EUR net hedged amount	385,920	(385,920)
EUR net- gain/(loss)	**(7,424)**	**7,424**
Change in other foreign currency against TRY		
Other foreign currency denominated net (liabilities)/assets	(766)	766
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss)/gain	**(766)**	**766**

31 December 2018

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

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The comparative amounts for total export and import amounts for the year ended 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Total export amount	33,375,426	27,303,441
Total import amount	17,467,167	15,236,754

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

Interest rate risk

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

	31 December 2019	31 December 2018
Fixed interest rate financial instruments		
Financial assets	3,160,603	1,361,594
Financial liabilities	4,874,051	2,967,869
Floating interest rate financial instruments		
Financial liabilities	1,333,995	1,514,948

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 TRY1,081 at 31 December 2019 (31 December 2018: TRY2,016) due to higher/lower interest expense

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

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

31 December 2019	**Book value**	**Total contractual cash outflow**	**Up to 3 months**	**Between 3 - 12 months**	**Between 1 – 5 years**	**Longer than 5 years**
Non-derivative financial instruments						
Financial liabilities	6,118,793	6,258,060	1,580,488	2,047,583	2,476,887	153,102
Lease liabilities	89,253	123,591	10,441	31,324	81,642	184
Trade payables						
-Related party	884,554	886,107	886,107	-	-	-
-Other	3,660,866	3,690,149	3,690,149	-	-	-
Other liabilities						
-Related party	20,617	20,617	20,617	-	-	-
-Other	54,541	54,541	54,541	-	-	-
Derivative financial liabilities						
Derivative financial instruments	1,447	1,447	-	-	1,447	-

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy table

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

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

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

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

As of 31 December 2019 and 31 December 2018, the Company's hierarchy table for its assets and liabilities recorded at fair value are as follows:

31 December 2019

	Level 1 (*)	**Level 2 (**)**	**Level 3**
Assets at fair value			
Derivative financial assets	-	-	-
Financial asset available-for-sale - Otokar	22,355	-	-
Total assets	**22,355**	**-**	**-**
Liabilities at fair value			
Derivative financial liabilities	-	1,447	-
Total liabilities	**-**	**1,447**	**-**

(*) Fair value is calculated at market prices per the Stock Exchange market at the reporting date.
(**) Rayiç değeri, birinci seviyenin içerdiği borsa fiyatlarının dışında ilgili varlık için dolaysız (fiyat gibi) veya dolaylı (fiyatlardan türetilen) gözlemlenebilen girdilerden hesaplanmıştır.

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2018

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

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company hedged the interest rate risk arising from cash flows related to the borrowing used as of 31 December 2019 with the maturity of 23 May 2024 amounting to EUR150,000,000 with interest rate swapping. The critical conditions of the settlement contract such as maturity, payment, interest rate change dates are in line with the critical conditions of the foreign currency borrowing, which is the subject of financial hedge as of 31 December 2019. The fair value of the interest rate swap transaction calculated as of 31 December 2019 is TRY1,447 and it is classified as long - term liabilities.

Derivative financial instruments

	31 December 2019	31 December 2018
Derivative financial liabilities	1,447	93
	1,447	**93**

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

28. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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 November 2026 with long- term financial borrowings.

Cash flow hedge reserve	**31 December 2019**	**31 December 2018**
Amount recognized in other comprehensive income	327,765	788,991
Amount recycled from other comprehensive income to statement of profit or (loss)	(441,155)	(415,963)
	(113,390)	**373,028**

29. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	2019	**2018**
Income from investing activities		
Dividend income	422	410
	422	**410**

	2019	**2018**
Expense from investing activities		
Loss on sale of property, plant and equipment	(714)	(3,855)
	(714)	**(3,855)**

30. DEFERRED REVENUE

	31 December 2019	**31 December 2018**
Short-term deferred revenue	13,311	6,704
Advances received	10,519	6,515
	23,830	**13,219**

	31 December 2019	**31 December 2018**
Long-term deferred revenue	10,838	7,479
	10,838	**7,479**

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

31. OTHER NON CURRENT LIABILITIES

	31 December 2019	**31 December 2018**
Other non-current liabilities (*)	61,235	52,508
	61,235	**52,508**

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

32. INVESTMENTS VALUED BY EQUITY METHOD

The Company has a 25% share in Rezervis Mobil Teknoloji A.Ş., which was established for the purpose of developing, improving and acquiring the algorithmic based application that remodeling the individual and collective use of the means of transportation within the scope of supporting innovation. In the event that Rezervis Mobil Teknoloji A.Ş. has decided to terminate its activities, the Company has allocated provision for its existing investments.

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

	31 December 2019		**31 December 2018**	
	Ownership rate (%)	**Amount**	**Ownership rate (%)**	**Amount**
Rezervis Mobil Teknoloji A.Ş.	25	-	25	933
		-		**933**

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

	2019	**2018**
1 January	**933**	**1,027**
Profit/(losses) share	(933)	(94)
31 December	**-**	**933**

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

33. RIGHT OF USE ASSETS

During the period, the Company has capitalized TRY143,782 of right of assets. As of 31 December 2019, the net book value of the right of use assets is TRY99,714. As of 31 December 2019 and 1 January 2019, the balances of the right of use assets and the depreciation and amortization expenses in the related period are as follows:

	Buildings	Machinery and equipments	Vehicles	Total
As of 1 January 2019	50,003	63,310	23,715	137,028
For the period ended 31 December 2019				
Additions	4,747	1,124	883	6,754
Period depreciation and amortization expenses	(15,808)	(16,953)	(11,307)	(44,068)
As of 31 December 2019	**38,942**	**47,481**	**13,291**	**99,714**

Distribution of depreciation expenses of right of use assets as of 31 December 2019 is follows:

	31 December 2019
Cost of sales (Note 18)	29,674
Marketing expenses (Note 19)	10,348
General administrative expenses (Note 19)	2,045
Research and development expenses (Note 19)	2,001
	44,068

34. GOVERNMENT INCENTIVES AND GRANTS

The Company realizes fixed asset investments with incentives within the scope of 2009 Decisions of the Council of Ministers on State Aid in Investments 2009 numbered 2009/15199 and 2012/3305, which regulates the investment legislation.

The investment projects in which the Company has completed its investment processes and continued to benefit from the contribution amounts to the investment deserved are as follows;

- An investment of TRY559,295 has been made between 2010 and 2013 for the Transit and Transit Custom model investments at Kocaeli Gölcük Plant. The investment contribution rate of this project is 30%.

- An investment of TRY1,300,573 has been made between 2013 and 2017 at Kocaeli Gölcük Plant for Transit expenditures. The investment contribution rate of this project is 50%.

- Investment expenditure of TRY798,311 was made between 2013 and 2016 for the new model Transit Courier investment, which started production with the establishment of the Yeniköy Plant in Kocaeli. The investment contribution rate of this project is 40%.

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

34. GOVERNMENT INCENTIVES AND GRANTS (Continued)

- Eskişehir Plant has two incentive certificates related to engine and truck production. The Company received an investment incentive certificate for the new 6 and 4-cylinder Engine Production project to be used in Trucks and Transit vehicles worth TRY187,379 in Eskişehir in 2013, and a second Investment Incentive Certificate for the Euro 6 Emission Truck Production project amounting to TRY331.362 It has received. The investment contribution rate of these projects is 40%.

The investment periods for the incentives of Eskişehir Factories have been completed and the incentive closure process is continuing with the Ministry of Industry.

The Company's project which has ongoing investment process and continues to benefit from the investment contribution is as follows;

- In 2016, an investment incentive certificate amounting to TRY849,160 was obtained for the renovation and factory modernization investments at the Gölcük and Yeniköy Factories related to Transit, Transit Courier and Transit Custom models, which are currently being produced at Kocaeli Factories. Investment expenditures are continuing within the scope of this project and the contribution rate of the project to investment is 40%.

With the decision of the Council of Ministers, 15 points were added to the investment contribution rates for the investments to be realized in 2017, and the 15 points advantage that was added to the existing investment contributions was extended with the decisions of the Council of Ministers for the investments of 2018 and 2019.

35. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Gembox Teknoloji Girişimleri A.Ş was established with 100% contribution to capital by Ford Otosan capital in order to carry out research, development, consultancy, engineering and incubation activities and to invest in companies and initiatives established in these areas.

For the central management of the Company's Ford Trucks exporting activities, Ford Otosan Netherlands BV was founded with 100% contribution to capital by Ford Otosan capital.

Investments in subsidiaries as of 31 December 2019 are as follows:

	31 December 2019		31 December 2018	
	Ownership rate (%)	**Amount**	**Ownership rate (%)**	**Amount**
Investment in subsidiaries				
Gembox Teknoloji Girişimleri Anonim Şirketi	100	2,500	-	-
Ford Otosan Netherlands BV	100	1	-	-
		2,501		**-**

These investments are carried at cost and are not included in the scope of consolidation since their financial statements do not have a significant effect on the financial statements of the Company.

36. SUBSEQUENT EVENTS

There are no disclosures that arise from the balance sheet date to the reporting date.

37. DISCLOSURE OF OTHER MATTERS

There is no other issue that significantly affects the financial statements or needs to be explained in order for the financial statements to be clear, interpretable and understandable.