

**Tofaş Türk Otomobil Fabrikası
Anonim Şirketi**

**Convenience translation into English of
consolidated financial statements
for the period 1 January - 31 December 2018
together with independent auditor's report**

(Originally issued in Turkish)

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TOFAŞ Türk Otomobil Fabrikası Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of TOFAŞ Türk Otomobil Fabrikası Anonim Şirketi (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards (TFRS).

Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) (of Turkey) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Independent Auditors* (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters	Auditor's response
Capitalized Development costs	
<p>The Group capitalizes R&D costs for increasing efficiency and capacity of the automobile production or decreasing production costs. Detailed in Note 13 to the accompanying financial statements, capitalized development costs on consolidated financial statements as of December 31, 2018 is significant for our audit due to variety of nature of costs and management judgments involved in the capitalization process.</p>	<p>Our audit procedures include, in addition to others, examination of the Group's policies and processes related to impairment, evaluation of expectation on projects and examination of nature of capitalized development costs related to each project.</p> <p>One of the most significant management judgment for the project at development phase is estimation of market performance of products related to the project. Our audit procedures on projects at development phase consist of assessment of reasonability of management judgments, examination of the result of development works and considering the Group's internal management and authorization processes.</p> <p>Additionally, inquiries have been performed with managers of the Group's R&D and sales departments, sales performance of products which start active sales in the market has been examined and recoverability of capitalized development costs for related projects have been assessed.</p> <p>Furthermore, we assessed the appropriateness of the disclosures in the financial statements in Note 13, intangible assets, in terms of TFRS.</p>
Warranty provision	
<p>As of December 31, 2018, warranty provision on consolidated financial statements is amounting to TL 147,956 thousand. Assessment of appropriate provision includes sensitive assumptions because calculation of warranty provisions recognized at consolidated financial statements is based on estimation for future part costs after the sale of product, estimates of labor expenses and warranty usage rates in prior periods.</p>	<p>As part of our audit procedures, calculation of warranty provision has been provided from the Group management. Information regarding to the realization of warranty provisions within the last three years in the calculation have been controlled with the amounts in the accounting records. The sales prices and unit prices of spare parts used in the calculation have been also checked. In addition, the assumptions used by the Group management on labor costs, which are part of the cost of sales, have been evaluated.</p> <p>Compliance of warranty provision calculated by Entity Resource Planning (ERP) with the Group's policy has been examined. Profit estimation adjustment on ERP calculation and the rationale of the adjustments to the profit estimation have been discussed with the management.</p> <p>Furthermore, we assessed the appropriateness of the disclosures in the financial statements in Note 15, provision, contingent assets and contingent liabilities, in terms of TAS 37.</p>

Receivable from financial sector operations	
<p>As of December 31, 2018, provisions for the receivables related to the financial sector operations amounting to TL 2,293,129 thousand is significant for our audit, since the assessments of the Group management during the calculation of the amount of provision are detailed and also depend on management's estimations and assumptions.</p> <p>We have an audit risk due to the risk that receivables from financial sector operations may impair and therefore the carrying amount of financial sector operations might be higher than the estimated recoverable amount.</p>	<p>As a part of our audit procedures, internal controls in process of issuance, recognizing, monitoring and payment of the loans have been tested and evaluated in order to assess operational efficiency of key controls designed to determine impairment in receivables of financial sector receivables and required provision.</p> <p>In addition, based on our professional judgment, sample selection has been made over receivables from financial sector operations and the existence of objective evidence of impairment within the receivables of financial sector operations has been assessed.</p> <p>Furthermore, we assessed the appropriateness of the disclosures in the financial statements in Note 9, receivables from financial sector operations, in terms of TFRS.</p>

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

In an independent audit, our responsibilities as the auditors are:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and InAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 consolidated financial statements.

As part of an audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and InAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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.
- Obtain an understanding of 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 consolidated 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) Report on Other Legal and Regulatory Requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on 7 February 2019.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2018 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Ethem Kutucular.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Ethem Kutucular, SMMM
Partner

7 February 2019
Istanbul, Turkey

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Consolidated financial statements
for the period 1 January - 31 December 2018**

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(Convenience translation of consolidated financial statements originally issued in Turkish)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Consolidated balance sheets

at 31 December 2018 and 2017

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

	Notes	Audited 2018	Audited 2017
ASSETS			
Current assets:			
Cash and cash equivalents	4	1,981,012	2,625,681
Financial assets	5	404,170	613,811
Trade receivables			
- Related parties	27	1,059,907	959,280
- Third parties	7	1,037,437	805,479
Receivables from finance sector operations	9	1,277,299	1,339,483
Other receivables	8	1,385	186
Inventories	10	1,076,671	1,055,582
Prepaid expenses	17	79,105	89,738
Current tax assets	25	8,143	986
Other current assets	17	163,168	235,755
Total current assets		7,088,297	7,725,981
Non-current assets:			
Receivables from finance sector operations	9	1,015,830	1,196,634
Other receivables	8	173	147
Derivative instruments	29	-	5,650
Investment properties	11	60,500	31,175
Property, plant and equipment	12	2,247,601	2,350,019
Intangible assets	13	1,579,461	1,703,865
Prepaid expenses	17	68,334	92,229
Deferred tax assets	25	941,603	769,448
Total non-current assets		5,913,502	6,149,167
Total assets		13,001,799	13,875,148

These consolidated financial statements as of and for the year ended 31 December 2018 have been approved for issue by the Board of Directors on 7 February 2019. The aforementioned consolidated financial statements will be finalized after the approval in General Assembly.

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

(Convenience translation of consolidated financial statements originally issued in Turkish)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Consolidated balance sheets

at 31 December 2018 and 2017

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

	Notes	Audited 2018	Audited 2017
LIABILITIES			
Current liabilities:			
Short-term financial liabilities	6	443,876	679,920
Short-term portion of long-term financial liabilities	6	2,016,875	1,900,391
Trade payables			
- Related parties	27	1,674,894	2,035,499
- Third parties	7	1,619,089	1,830,107
Employee benefit liabilities	16	100,188	97,451
Other payables	8	16,060	25,561
Derivative instruments	29	269	-
Government incentives and grants	14	8,374	8,374
Deferred income	17	56,232	47,382
Short-term provisions	15	156,599	211,029
Other current liabilities	17	5,249	9,638
Total current liabilities		6,097,705	6,845,352
Non-current liabilities:			
Long-term financial liabilities	6	2,971,301	3,230,600
Derivative instruments	29	16,786	-
Government incentives and grants	14	13,550	21,924
Long-term provisions			
- Provisions for employment termination benefits	16	195,902	194,235
Total non-current liabilities		3,197,539	3,446,759
Total liabilities		9,295,244	10,292,111
Equity:			
Paid-in share capital	18	500,000	500,000
Adjustment to share capital		348,382	348,382
Other comprehensive losses			
not to be reclassified under profit or losses			
- Actuarial loss on employment termination benefit obligation		(37,990)	(36,419)
Other comprehensive losses to be reclassified under profit or losses			
- Cumulative losses on hedging		(1,075,625)	(672,364)
Restricted reserves	18	387,363	309,863
Retained earnings		2,254,002	1,850,757
Net profit for the year		1,330,423	1,282,818
Total equity		3,706,555	3,583,037
Total liabilities and equity		13,001,799	13,875,148

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

(Convenience translation of consolidated financial statements originally issued in Turkish)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Consolidated statements of profit or loss

for the years ended 31 December 2018 and 2017

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

		Audited	Audited (Reclassified Note 2.1.2)
	Notes	1 January - 31 December 2018	1 January - 31 December 2017
Revenue	19	18,603,331	17,467,806
Cost of sales (-)	19	(16,190,143)	(15,551,677)
Gross profit from operations		2,413,188	1,916,129
Revenue from finance sector operations		495,590	400,841
Expenses from finance sector operations (-)		(392,632)	(290,765)
Gross profit from finance sector operations		102,958	110,076
Gross profit		2,516,146	2,026,205
General administrative expenses (-)	20	(329,856)	(273,006)
Marketing, selling and distribution expenses (-)	20	(362,325)	(392,816)
Research and development expenses (-)	20	(66,441)	(55,607)
Other income from main operations	22	3,315,185	1,035,773
Other expense from main operations (-)	22	(3,892,403)	(1,281,221)
Operating profit before financial income		1,180,306	1,059,328
Income from investing activities	23	34,681	4,636
Operating profit before financial income		1,214,987	1,063,964
Financial income	24	2,249,772	1,105,001
Financial expenses (-)	24	(2,173,865)	(939,493)
Profit before tax from continuing operations		1,290,894	1,229,472
Tax income for the period		39,529	53,346
- Taxes on income	25	(25,887)	(26,503)
- Deferred tax income	25	65,416	79,849
Net profit for the year		1,330,423	1,282,818
Net profit attributable to:			
Non-controlling interests		-	-
Equity holders of the parent		1,330,423	1,282,818
Earnings per share (Kr)	26	2.66	2.57

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

(Convenience translation of consolidated financial statements originally issued in Turkish)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Consolidated statements of other comprehensive income

for the years ended 31 December 2018 and 2017

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

		<i>Audited</i>	<i>Audited</i>
		2018	2017
Net profit for the year		1,330,423	1,282,818
Other comprehensive income:			
Other comprehensive income not to be reclassified under profit and loss			
- Actuarial (loss) / gain on employment termination benefit obligation	16	(1,986)	(16,693)
Taxes relating to other comprehensive income not to be reclassified under profit and loss			
Actuarial loss on post employment termination benefit obligation, tax effect	25	415	3,496
Other comprehensive income to be reclassified under profit and loss			
-Losses on hedging	2	(509,585)	(382,042)
Taxes relating to other comprehensive income to be reclassified under profit and loss			
-Losses on hedging, tax effect	25	106,324	88,007
Other comprehensive (loss)		(404,832)	(307,232)
Total comprehensive income		925,591	975,586
Total comprehensive income attributable to:			
Non-controlling interests		-	-
Parent company interests		925,591	975,586

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

(Convenience translation of consolidated financial statements originally issued in Turkish)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Consolidated statements of changes in equity
for the years ended 31 December 2018 and 2017

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

			Other comprehensive income not to be reclassified under profit and loss	Other comprehensive income to be reclassified under profit and loss		Retained earnings				
	Paid in share capital	Adjustments to share capital	Actuarial loss on employment termination benefit obligation	Loss on cash flow hedge	Restricted reserves	Retained earnings	Net profit for the year	Equity holders of the parent	Non- controlling interests	Total equity
Balances at 1 January 2017	500,000	348,382	(23,222)	(378,329)	277,363	1,263,029	970,228	2,957,451	-	2,957,451
Transfers	-	-	-	-	32,500	937,728	(970,228)	-	-	-
Total comprehensive income	-	-	(13,197)	(294,035)	-	-	1,282,818	975,586	-	975,586
Dividends paid	-	-	-	-	-	(350,000)	-	(350,000)	-	(350,000)
Balances at 31 December 2017	500,000	348,382	(36,419)	(672,364)	309,863	1,850,757	1,282,818	3,583,037	-	3,583,037
Balances at 1 January 2018	500,000	348,382	(36,419)	(672,364)	309,863	1,850,757	1,282,818	3,583,037	-	3,583,037
Adjustments related to changing on accounting policy (Note 2.2)	-	-	-	-	-	(2,073)	-	(2,073)	-	(2,073)
Transfers	-	-	-	-	77,500	1,205,318	(1,282,818)	-	-	-
Total comprehensive income	-	-	(1,571)	(403,261)	-	-	1,330,423	925,591	-	925,591
Dividends paid	-	-	-	-	-	(800,000)	-	(800,000)	-	(800,000)
Balances at 31 December 2018	500,000	348,382	(37,990)	(1,075,625)	387,363	2,254,002	1,330,423	3,706,555	-	3,706,555

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

(Convenience translation of consolidated financial statements originally issued in Turkish)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Consolidated statements of cash flows

for the years ended 31 December 2018 and 2017

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

	Notes	Audited 2018	Audited 2017
A. Cash flows from operating activities:		1,336,612	1,156,180
Net profit for the year		1,330,423	1,282,818
Adjustments to reconcile profit for the period		880,231	523,190
- Depreciation and amortization	21	775,054	696,679
- Income from revaluation of investment properties	23	(29,325)	(805)
- Adjustments related to doubtful receivables	7-9	29,843	11,263
- Adjustments related to derivative instruments			
- Adjustments related to interest income	24	(115,433)	(116,187)
- Adjustments related to provision for inventories	10	752	4,391
- Gain on sale of property, plant and equipment		(5,356)	(3,831)
- Provision for employment termination benefits	16	41,395	40,282
- Lawsuit provisions / cancellations		605	-
- Adjustments related to warranty provisions	15-20	109,934	107,895
- Adjustments related to interest expense	24	87,265	78,925
- Adjustments for tax losses/ income	25	(39,529)	(53,346)
- Due date charges on term purchases	22	37,256	11,236
- Adjustments related to unrealized gain on foreign currency differences		343,627	79,138
- Adjustments related to exchange differences of cash and cash equivalents		(355,857)	(332,450)
Changes in net working capital		(661,798)	(532,855)
- Change in inventories		(21,841)	(139,829)
- Change in receivables from third parties		(61,168)	(6,270)
- Change in receivables from related parties		(100,627)	(250,031)
- Change in other receivables from operating activities		(1,225)	8,332
- Change in trade payables due to third parties		(211,018)	37,347
- Change in trade payables due to related parties		(598,494)	305,171
- Change in receivables from finance sector operations		242,988	(318,002)
- Change in prepaid expenses		34,528	(148,039)
- Change in deferred revenue		(299)	8,473
- Change in government incentives and grants		(8,374)	(8,374)
- Change in other assets from operating activities		72,586	(61,123)
- Change in other liabilities from operating activities		(29,140)	39,661
- Change in fair value gains on derivative financial instruments		20,286	(171)
Net cash generated from operating activities		1,548,856	1,273,153
- Income taxes paid	25	(33,044)	(16,832)
- Payments related to employment termination benefits	16	(41,714)	(33,895)
- Other cash outflows		(137,486)	(66,246)
B. - Cash flows from investing activities		(206,428)	(1,007,332)
- Purchases of tangible assets	12	(329,840)	(405,678)
- Purchases of intangible assets	13	(232,833)	(272,851)
- Proceeds from sale of tangible and intangible assets		19,797	10,225
- Change in financial assets		209,641	(446,367)
- Interest received		126,807	107,339
C. Cash flows from financing activities		(2,107,933)	(193,862)
- Proceeds from financial liabilities		2,154,761	1,303,560
- Bank loans paid		(3,386,522)	(1,064,626)
- Dividend paid		(800,000)	(350,000)
- Interest paid		(87,575)	(80,596)
- Other cash inflows (outflows)		11,403	(2,200)
Net (decrease)/ increase in cash and cash equivalents before currency translation differences		(977,749)	(45,014)
D. Effects of currency translation differences on cash and cash equivalents		355,857	441,720
Net change in cash and cash equivalents		(621,892)	396,706
E. Cash and cash equivalents at the beginning of the year		2,582,067	2,185,361
Cash and cash equivalents at the end of the year	4	1,960,175	2,582,067

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

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018**

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

NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Tofaş Türk Otomobil Fabrikası A.Ş. (the "Company" or "Tofaş") was established in 1968 as a Turkish-Italian cooperation venture. The core business of the Company is manufacturing, exporting and selling passenger cars and light commercial vehicles under licenses of Fiat Chrysler Automobiles S.p.A. ("Fiat"). Tofaş, which is a joint venture of Koç Holding A.Ş. ("Koç Holding") and Fiat, also produces various automotive spare parts used in its automobiles. The Company's head office is located at Büyükdere Cad. No: 145 Zincirlikuyu Şişli, İstanbul. The manufacturing facilities are located at Bursa. The Company manufactures its cars, except for Mini Cargo and New Doblo, pursuant to license agreements between the Company and Fiat. The Company has been registered with the Turkish Capital Market Board ("CMB") and quoted on the İstanbul Stock Exchange ("ISE") since 1991.

The Company conducts a significant portion of its business with affiliates of Koç Holding and Fiat Group (Note 27).

The Company's subsidiaries as of 31 December 2018 and 2017 which are subject to consolidation are as follows:

Name of the company	Operating area	Rate of ownership of the Company (%)	
		2018	2017
Koç Fiat Kredi Finansman A.Ş. ("KFK")	Consumer financing	99.9	99.9
Fer Mas Oto Ticaret A.Ş.	Trading of automobile and spare parts	100	100

For the purpose of the consolidated financial statements, Tofaş and its consolidated subsidiaries are referred to as the "Group".

The average number of personnel in accordance with the Group's categories is as follows:

	2018	2017
Hourly-rated	6,922	7,974
Monthly-rated	1,747	1,738
	8,669	9,712

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Financial reporting standards

The accompanying consolidated financial statements are prepared in accordance with the Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" ("the Communiqué") published in the Official Gazette numbered 28676 on 13 June 2013. According to the article 5 of the Communiqué, consolidated financial statements are prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") and its addendum and interpretations ("IFRIC") issued by Public Oversight Accounting and Auditing Standards Authority ("POA") Turkish Accounting Standards Boards.

The consolidated financial statements of the Group are prepared as per the CMB announcement of 7 June 2013 relating to financial statements presentations.

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with the financial reporting standards accepted by the CMB ("CMB Financial Reporting Standards"). Accordingly, TAS 29, "Financial Reporting in Hyperinflationary Economies", issued by the POA, has not been applied in the financial statements for the accounting year commencing 1 January 2005.

The Company and its subsidiaries operating in Turkey, maintains its accounting records and prepares its statutory financial statements in accordance with the Turkish Commercial Code (the "TCC"), tax legislation and the uniform chart of accounts issued by the Minis TL of Finance. These consolidated financial statements are based on the statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS.

2.1.2 Comparatives and adjustment of prior periods' consolidated financial statements

In order to allow for the determination of the financial situation and performance trends the Group's consolidated financial statements have been presented comparatively with the previous year. Where necessary, comparative figures have been reclassified to conform to the changes in presentation in the current period.

Gain on sale of property, plant and equipment with the net effect of TL 3,831 which was under other income and expense from operating activities is reclassified to income from investment activities

Revaluation income from investment property amounting to TL 805 which was under other income and expense from operation activities is reclassified to income from investment activities.

Loss on hedging amounting to TL 382,042 which was under financial income is reclassified to financial expense.

The cash flow statement for the year ended 31 December 2017 is presented in accordance with the above reclassifications.

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

2.1.3 Functional and reporting currency

The Group's functional and reporting currency is Turkish Lira ("TL"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation are recognized in the consolidated statement of income.

2.1.4 Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group and deconsolidated from the date that control ceases. Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies. Minority shares of Tofaş in subsidiaries were not recognized under non-controlling interest ("Minority interest" or "Non-controlling Interests") since they do not have a material effect in consolidated financial statements. Financial statements of the Company and its subsidiaries subject to consolidation were prepared as of the same date.

2.1.5 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires the Group 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. Those estimates are reviewed periodically, and as adjustments become necessary they are reported in earnings in the periods in which they become known.

Significant estimates used in the preparation of these financial statements and the significant judgments with the most significant effect on amounts recognized in the financial statements are as follows:

- a) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle. In calculation of the warranty provision; vehicle quantity, warranty period and the historical warranty claims incurred are considered. As of 31 December 2018, the amount of guarantee expense is TL109.934 (31 December 2017: TL 107.895) (Note 15).

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

- b) KFK, the subsidiary of the Group, has established a specific credit risk provision for loan impairment to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. Impairment and collectability are measured and recognized individually for loans and receivables that are individually significant, and measured and recognized on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. As of 31 December 2018, general provisions for finance loans amounted to TL 21.203 (31 December 2017: TL 26.532) has been booked in the consolidated financial statements (Note 9).
- c) The cost of defined benefit plans is determined using actuarial valuations which involve making assumptions about discount rates, future salary increases and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.
- d) While recording provisions for litigations, the Group makes evaluations in accordance with the Group's legal counsels about the possibility of losing the lawsuits and results that will be incurred if the lawsuit is lost.
- f) The data in the discounted price list are used to calculate inventory impairment. If expected net realizable value is less than cost, the Group allocates provisions for inventory impairment.
- g) The Group assesses whether there is any impairment indicator in investment properties and compares carrying values of the investment property with the fair determined in the valuation report obtained by a property appraiser company licensed by CMB
- h) Group management has made assumptions based on the experience of the technical staff in determining the useful life of tangible and intangible assets.
- ı) Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. In determination of deferred tax asset to be recognized, there are certain assumptions and judgments made about future taxable income to be recognized in the future. Deferred tax asset is recorded for the periods ending as of December 31, 2018 and 2017 since the assumptions used regarding that the Company has taxable profit in following periods
- i) The Group capitalizes ongoing development expenditures and assesses whether the related asset has an impact on the assets that will increase or decrease the cost of the Company during the useful life of the asset in the subsequent periods and whether there is an impairment of the year. As of December 31, 2018 and 2017, no impairment was recognized for capitalized development costs (Note 13).

2.2 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2018. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)

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

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

- i) The new standards, amendments and interpretations which are effective as at January 1, 2018 are as follows:

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group adopted TFRS 15 using modified retrospective approach and disclosed the impact of the standard on financial position or performance of the Group in below.

- Service sales under extended warranty, which the Group has made with the sale of goods, have started to be recognized as revenue in the income statement as of January 1, 2018. Accordingly, as of 1 January 2018, the statement of financial position and profit or loss has changed as follows.

	1 January 2018 – Before the change	The Effect of new standard	1 January 2018 – After the change
Deferred tax assets	769,448	(585)	768,863
Total assets	13,875,148	(585)	13,874,563
Short term provisions	211,029	(6,491)	204,538
Deferred income	47,382	9,149	56,531
Total Liabilities	10,292,111	2,658	10,294,769
Retained Earnings	1,850,757	(2,073)	1,848,684
Equity	3,583,037	(2,073)	3,580,964

- As of December 31, 2018, the effects of TFRS 15 are as follows:

	Before Change	The effect of new standard	After Change
Deferred income	45,192	11,040	56,232
Deferred tax	62,987	2,429	65,416
Deferred tax assets	939,174	2,429	941,603
Revenue	18,614,371	(11,040)	18,603,331
Net profit for the period	1,339,034	(8,611)	1,330,423

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

TFRS 9 Financial Instruments

In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018.

All borrowing instruments of the Group are recorded impairment losses on loans and receivables as 12-month expected credit losses or expected life expectancies. The Group has applied simplified method and recognized the expected life-time losses on trade receivables. There is no material effects of TFRS 9 has evaluated as of January 1, 2018 and additional provision for trade receivable impairment amounting to TL 333 has been recorded as of December 31, 2018.

TFRS 4 Insurance Contracts (Amendments)

In December 2017, POA issued amendments to TFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when TFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 Financial instruments until 2021. The entities that defer the application of TFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—TAS 39.

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant impact on the financial position or performance of the Group.

TFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on 19 December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. The interpretation did not have a significant impact on the financial position or performance of the Group.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

TFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

In December 2017, POA issued amendments to TFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

- a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are applied for annual periods beginning on or after 1 January 2018. The Group and did not have an impact on the financial position or performance of the Group.

TAS 40 Investment Property: Transfers of Investment Property (Amendments)

In December 2017, POA issued amendments to TAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant impact on the financial position or performance of the Group.

Annual Improvements to TFRSs - 2014-2016 Cycle

In December 2017, POA issued Annual Improvements to TFRS Standards 2014–2016 Cycle, amending the following standards:

- TAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying TFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are applied for annual periods beginning on or after 1 January 2018.

The amendments are not applicable for the Group.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

TFRS 16 Leases

In April 2018, POA has published a new standard, TFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. TFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognizes an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. 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, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. The Group is in the process of assessing the impact of the standard on the financial position and performance of the Group, the explanation of preliminary analyses is as follows:

Transition to TFRS 16:

The Group plans to adopt TFRS 16 using the modified retrospective approach. The Group will elect to apply the standard to contracts that were previously identified as leases applying TAS 17 and TFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying TAS 17 and TFRIC 4.

The Group plans to elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value. The Group has performed a detailed impact assessment of TFRS 16 in 2018. In summary the impact of TFRS 16 adoption is expected to be, as follows:

Impact on the consolidated statement of financial position (increase/ (decrease)) as at 31 December 2018:

Assets

Property, plant and equipment (right-of-use assets)	32.827
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Liabilities

Lease liabilities	(32.827)
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Due to the adoption of TFRS 16, *the Group's* operating profit will improve, while its finance cost will increase. This is due to the change in accounting for expenses of leases that were classified as operating leases under TAS 17.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Amendments to TAS 28 "Investments in Associates and Joint Ventures" (Amendments)

In December 2017, POA issued amendments to TAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify that a company applies TFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

TFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with TAS 28 Investments in Associates and Joint Ventures. In this amendment, POA clarified that the exclusion in TFRS 9 applies only to interests a company accounts for using the equity method. A company applies TFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted. The Group and will not have an impact on the financial position or performance of the Group.

TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

TFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "TAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognized at the date of initial application.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

Annual Improvements – 2015–2017 Cycle

In January 2019, POA issued Annual Improvements to TFRS Standards 2015–2017 Cycle, amending the following standards:

- TFRS 3 Business Combinations and TFRS 11 Joint Arrangements — The amendments to TFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to TFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- TAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- TAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The Group and will not have an impact on the financial position or performance of the Group.

Plan Amendment, Curtailment or Settlement” (Amendments to TAS 19)

In January 2019, the POA published Amendments to TAS 19 “Plan Amendment, Curtailment or Settlement” The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019, early application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to TFRS 9)

The POA issued minor amendments to TFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying TFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2.3 Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and short-term highly liquid investments whose risk of value change is not material including time deposits generally having original maturities of three months or less (Note 4).

Financial assets

Classification

The Group classifies its financial assets in three categories; through amortization, through fair value difference reflected in other comprehensive income and through financial assets at fair value through profit and loss. The classification is based on the business model used by the entity for the management of financial assets and the characteristics of the contractual cash flows of the financial assets. The Group classifies its assets at the date of the purchase.

Financial assets are not reclassified after initial recognition unless the business model that the Group uses in the management of financial assets change, and in case of a change in business model, the financial assets are reclassified on the first day of the following reporting period.

Recognition and Measurement

Financial assets measured at amortised cost is a non-derivative financial asset that is held as part of a business model that aims to collect contractual cash flows and that have cash flows that include interest payments on principal dates and principal balances on certain dates under contractual terms. The Group's financial assets which are recognized at amortised cost include, "cash and cash equivalents", "trade receivables", "trade payables", "other receivables", "financial investments. The aforementioned assets are measured at their fair values in the initial recognition of financial assets and discounted values by using the effective interest rate method in the subsequent accounting. Gains and losses resulting from the valuation of non-derivative financial assets measured at amortised cost are recognized in the consolidated statement of profit and loss.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

"Financial assets whose fair value difference is reflected in other comprehensive income", is a non-derivative financial asset that includes cash flows that are held only on principal dates and interest on certain dates under contractual terms and that are held within a business model aimed at collecting contractual cash flows and selling the financial assets. Gains or losses arising from the aforementioned financial assets are recognized in other comprehensive income with the exception of impairment gain or loss and foreign exchange gain or loss. For investments in equity-based financial assets, the Group may irrevocably choose the method of reflecting the subsequent changes in the fair value of other comprehensive income in the financial statements for the first time. In the event that such preference is made, dividends received from related investments are recognized in the consolidated statement of profit and loss. Financial assets at fair value through profit and loss are comprised of financial assets measured at amortized cost except for the financial assets at fair value through profit and loss. Gains and losses arising from the valuation of the aforementioned assets are recognized in the consolidated income statement.

Financial Exclusion

The Group derecognizes a financial asset when the Group discontinues its rights to cash flows in accordance with the contract for financial assets or, when the related rights are transferred by a trading transaction to the ownership of all risks and rewards of the financial asset. Any rights created or held by the Group in respect of the financial assets transferred by the Group are recognized as a separate asset or liability.

Impairment

Impairment on financial assets and contractual assets is calculated by using a method called Expected Loan Loss (ELL). This impairment model is applied to amortised cost financial assets and contractual assets.

Loss provisions were measured on the following basis;

12 month ELL; is the ELL of the possible default events within 12 months of the reporting date.

Lifetime ELL; is the expected loss of loans resulting from all possible default events during the expected life of a financial instruments.

The expected lifetime loan loss measurement is applied when the credit risk associated with a financial asset is significantly increased at the reporting date. In all other cases where the related increase has not occurred, 12-Month ELL calculation has been applied. The Group may determine that the credit risk of the financial asset does not increase significantly if the credit risk of the financial asset has a low credit risk at the reporting date. Nevertheless, the ELL measurement (with a simplified approach) is always applicable to trade receivables and contract assets without a significant financing element.

Recognition and Measurement

Financial assets that are purchased and sold normally are recorded at the date of sale. The date of the purchase is the date is the date which the Group commits to purchase or sell the asset. Financial assets except for financial assets at fair value through profit and loss are initially recognized at fair value plus transaction costs. When the cash flow purchase rights arising from financial assets expire or are transferred and the Group transfers all the risks and rewards, the financial assets are excluded from the balance sheet. Financial assets that are available for sale are subsequently accounted for at their fair values. Loans and receivables are carried at amortised cost using the effective interest method.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Receivables from finance sector operations

Receivables from finance sector operations are carried at amortized cost in the consolidated balance sheet of the Group (Note 9).

Provision for impairment of receivables from finance sector operations

The Group, recognize provisions for the receivables from finance sector operations for the impairment of consumer finance loans based on a credit review of the receivables portfolio. Provision amount is determined based on the Group's credit risk policies, composition and financial performance of the credit portfolio and economical environment and reflected as "Doubtful Loans" after deducting the related fair value of the guarantee amounts. Changes in the provision amount are accounted for under period income/loss. When a loan is deemed uncollectible, it is written off against the related provision for impairment. The loan is written off after all necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Subsequent recoveries are credited to the profit or loss if previously written off.

The allowances for impairment of receivables from finance sector operations are established based on a credit review of the Group's receivables from finance sector operations portfolio.

The Group can also recognize specific provision even if the overdue days are less than the days stated above or receivables are not over due at all, by taking into account all the existing data regarding the creditor and based on the principals of reliability and prudence.

Group also recognizes a general provision for the receivables which is not related to a specific transaction that can be recognized for the losses arising from the principal or interest of consumer finance loans that are not overdue or overdue less than 90 days but the amount of loss is not certain. Group sets a general provision for consumer finance loans that have not been considered as doubtful yet.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Trade receivables

Trade receivables that are created as a result of providing products or services to the buyer are recognized at amortized cost using the effective interest method. Short-term receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant. A simplified approach (is applied for the impairment of trade receivables, which are recognized at amortized cost in the financial statements and which do not include a significant financing component (less than one year). In cases where the trade receivables are not impaired due to certain reasons (except for the realized impairment losses), the provisions for losses related to trade receivables are measured by an amount equal to the expected credit losses. In case of collecting all or part of the receivable amount that is impaired following the provision for impairment, the collected amount is deducted from the main activities to other income by deducting the amount deducted from the provision for impairment. Income / expense related to commercial transactions and foreign exchange gains / losses are accounted for under the other operating income / expenses in the consolidated statement of profit or loss.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. In addition, the management makes a general provision in accordance with TFRS 9 in accordance with the maturity of the receivables based on their past experience on trade receivables, (Note 7).

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows: Raw materials - purchase cost on a monthly average basis; finished goods and work-in-process - cost includes the applicable allocation of fixed and variable overhead costs on the basis of monthly average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. The scrap inventory is written off when identified (Note 10).

Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts with maturities, are initially measured at fair value and are remeasured at their fair values subsequently. The classification of gains or losses arising from derivative financial instruments changes depending on the classification of the derivative financial instruments. Even though derivative financial instruments are used as part of the Group's risk management, they do not meet the criteria for hedge accounting therefore they are measured at fair value including expenses at the time of inception and are remeasured at fair value in subsequent periods. Gains or losses arising from the change in the fair value of such instruments are accounted for in the consolidated statement of income.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value (Note 11). An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal.

Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into the operation, such as repairs and maintenance and overhaul costs are normally charged to income in the period the costs are incurred. Expenditures are added to cost of assets if the expenditures provide economic added value for the future use of the related property, plant and equipment.

Depreciation is computed on a straight-line basis over the estimated useful lives (Note 12). The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The depreciation terms are as follows;

	Years
Land improvements	33
Buildings	33
Machinery and equipment	12-33
Motor vehicles	4-10
Furniture and fixtures	8-14
Leasehold improvements	5-30

In case of any indication of the impairment in the carrying value of property, plant and equipment, the recoverable amount is reassessed and provision for impairment is reflected in the consolidated financial statements.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of net selling price or value in use. Net selling price is determined by deducting any expenses to be incurred for the sale of an asset from the fair value of the asset. Value in use is calculated as the discounted value of the estimated future cash flows the entity expects to receive from the asset.

Gains and losses on sale of property, plant and equipment are included in other income and expense from investment activities.

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over their useful lives. The depreciation period for the intangibles capitalized in relation with the new models will be started after the production of these models is started. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable (Note 13).

Impairment of assets

The carrying amounts of the Group's tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. When an indication of impairment exists, the Group compares the carrying amount of the asset with its net realizable value which is the higher of value in use or fair value less costs to sell. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. An impairment loss is recognized immediately in the consolidated statement of profit or loss.

The increase in carrying value of the assets (or a cash generated unit) due to the reversal of recognized impairment loss shall not exceed the carrying amount of the asset (net of amortization amount) in case where the impairment loss was reflected in the consolidated financial statements in prior periods. Such a reversal is accounted for in the statement of profit or loss.

Research and development expenditures

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply with the following criteria:

- The product or process is clearly defined and costs are separately identified and measured reliably,
- The technical feasibility of the product is demonstrated,
- The product or process will be sold or used in-house,
- A potential market exists for the product or its usefulness in case of internal use is demonstrated, and
- Adequate technical, financial and other resources required for completion of the project are available.

The costs related to the development projects are capitalized when the criteria above are met and amortized by straight-line basis over the useful lives of related projects (2-13 years).

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Revenue recognition

Automotive sector operations:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are stated net of discounts, value added and sales taxes. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Net sales are invoiced amounts of delivered goods excluding sales returns.

Service income is recognized when the service is rendered and the amount is reliably measured (Note 19).

Revenue from extended warranty sales

The Group sells a warranty commitment for the period from the end of the legal period required by the laws for the products it produces. The price of the additional warranty commitments is determined separately from the products sold and considered as a different service under the contract. For this reason, the Group may is recognized as a performance obligation.

For each performance obligation, the Group determines whether it has fulfilled its performance obligation at the beginning of the contract or whether the performance obligation fulfilled at a certain point in time. The Group transfers the control over the service in extended warranty sales over time and thus fulfills the performance obligations related to the sales in question in time and measures the progress on the fulfillment of this performance obligation and takes the revenue over the consolidated financial statements. The Group records revenue from product sales in the consolidated financial statements following the transfer of control to the customer.

Finance sector operations:

The interest income incurred from loans is recognized by using effective interest rate method and on accrual basis. Interest income is not recognized when consumer financing loans given by the Group become doubtful or when the borrower defaults.

Loan investigation fees of the Group which are collected on the execution and disbursement of loans and advances to customers and are recognized as income by netting off from the loan balance using a systematic deduction method over the contractual life of loans in the consolidated financial statements.

Also, the Group has a revenue sharing agreement with the insurance company over the insurance premiums collected form loan customers. The Group recognizes insurance premium income as deferred revenue under other liabilities initially and subsequently recognizes it as income over the payment plan of loans using a systematic method.

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 on an accrual basis as financial income.

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates (Note 6).

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

For the year ended 31 December 2018, the Group has no capitalized borrowing costs (31 December 2017: no capitalized borrowing costs).

Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively (Note 25).

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liability is recognized on all temporary differences regarding subsidiaries unless neither utilization date of taxable temporary differences are reviewed nor utilization of temporary difference in an estimated period is probable.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Employment termination benefits

In accordance with existing social legislation, the Group is required to make lump sum termination indemnities to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the consolidated financial statement, the Group has reflected a liability calculated using "Projected Unit Credit Method" and based upon factors derived using the Group's experience of personnel terminating their services and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds.

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements. Past-service costs are recognized immediately in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise (Note 16).

Earnings per share

Earnings per share disclosed in the consolidated statement of income are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares "bonus shares" to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the earnings per share calculation such bonus share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Group, are regarded similarly (Note 26).

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the group 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 the amount has been reliably estimated (Note 15). Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

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

Warranty expense provision

The Group provides free of charge maintenance service for the vehicles, in accordance with the period determined in the agreement following the date of domestic sale. Export sales of the Group are not under a warranty commitment. Warranty provision is periodically reviewed and reassessed in accordance with the realized expenses in the previous periods. The Group does not have a significant liability due to extended warranty (Note 15).

Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements, but disclosed when an inflow of economic benefits is probable.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Foreign currency transactions

Income and expenses arising 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 at the exchange rates prevailing at the balance sheet dates, which are announced by Central Bank of the Republic of Turkey. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the related income and expense accounts, as appropriate.

Segment reporting

An entity shall report separately information about an operating segment if its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments, The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss, its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

Group has identified its operating segments based on the reports reviewed by the Board of Directors and used in taking strategic decisions. The operating segments of the Group has been determined as automobile and trading of spare parts. The Group management evaluates the performance of its operating segments based on operating profit before financial income in accordance with TFRS.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

Cash flow hedge

Changes in the fair value of a hedging instrument that qualifies as a highly effective cash-flow hedge are recognized directly in shareholders' equity. The ineffective portion is immediately recognized in net profit or loss. If the cash flow hedge results in the recognition of an asset or a liability, all gains and losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred from hedging reserve to net profit or loss in the same period or periods during which the hedged firm commitment or forecasted transaction affects the statement of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the committed or forecasted transaction occurs. When the committed or forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is transferred to the statement of income. As of 31 December 2018, gains on cash flow hedging accounted for under the statement of other comprehensive income are TL 509,585 (31 December 2017: losses amounting to TL 382.042).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the current year income statement.

There is an effective cash flow hedge relationship between foreign currency originated long term loans and the realized and forecasted sales (items subject to be hedged) of light commercial vehicles (New Doblo, Doblo FL and Doblo US) and commercial vehicles (Egea, Stationwagon, Hatchback). According to the agreements made between the Group and Fiat, the long term loan liabilities will be covered by the planned sales of New Doblo, Doblo FL and Doblo US to Fiat starting from 2009 until December, 2021. Furthermore, according to the agreement made between Fiat and the Group, long term loan liabilities will be covered through a portion of sales of Egea and Stationwagon / Hatchback to Fiat starting from 2017 until December 2023.

The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated, and effectiveness of the hedge consistent with the documented risk management strategy.

Related parties

Parties are considered related to the Group if (Note 27);

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venture;
- (d) the party is member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party has a post-employment benefit plan for the benefit of employees of the Group, or of an entity that is a related party of the Group.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

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

Investment, research and development incentives

Government grants are recognized at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systemic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recorded as deferred income. Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight- line basis over the expected lives of the related assets. Investment and research and development incentives are recognized when incentive applications of the Group are approved by fiscal authorities (Note 14).

NOTE 3 - SEGMENT REPORTING

The reportable operational segments for segment reporting as of 31 December 2018 and 2017 are as follows:

2018	Trading of spare parts and automobile	Consumer financing	Total
Revenue	18,603,331	495,590	19,098,921
Gross profit	2,413,188	102,958	2,516,146
Operating expenses (-)	(722,897)	(35,725)	(758,622)
Other income from main operations	3,310,942	4,243	3,315,185
Other expenses from main operations (-)	(3,883,615)	(8,788)	(3,892,403)
Operating profit	1,117,618	62,688	1,180,306
2017	Trading of spare parts and automobile	Consumer financing	Total
Revenue	17,467,806	400,841	17,868,647
Gross profit	1,916,129	110,076	2,026,205
Operating expenses (-)	(695,996)	(25,433)	(721,429)
Other income from main operations	1,032,249	3,524	1,035,773
Other expenses from main operations (-)	(1,268,256)	(12,965)	(1,281,221)
Operating profit	984,126	75,202	1,059,328

The distribution of assets and liabilities of consumer financing segment is followed by TL 1,457,887 in current asset, TL 1,017,972 in non-current asset as receivables from finance sector operations and TL 1,199,917 in current liabilities, TL 1,118,288 in non-current liabilities as financial liabilities.

A significant portion of revenue consists of sales to related parties (Note 27).

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	2018	2017
Cash on hand	16	24
Due from banks		
- time deposits	1,907,120	2,557,799
- demand deposits	73,876	67,858
	1,981,012	2,625,681

As of 31 December 2018 and 2017, the details of time deposits are as follows:

	2018		2017	
	Amount	Effective interest rate per annum (%)	Amount	Effective interest rate per annum (%)
EUR	1,184,283	1.90-2.30	1,228,391	1.55 – 2.50
TL	722,837	23.00-23.25	1,329,408	14.20 – 15.65
	1,907,120		2,557,799	

As of 31 December 2018, the maturities of time deposits vary between 2 and 29 days (31 December 2017: between 4 and 49 days).

As of 31 December 2018, the cash at banks comprise time and demand deposits amounting to TL 1,556,962 (31 December 2017: TL 1,679,752) which are deposited at a bank which is a related party of the Group (Note 27).

As of 31 December 2018 and 2017, the reserves of cash and cash equivalent in cash flow statement;

	2018	2017
Cash and cash equivalents	1,981,012	2,625,681
Less: interest accruals	(1,167)	(12,541)
Less: restricted cash	(19,670)	(31,073)
	1,960,175	2,582,067

As of 31 December 2018, the Company's TL 19,670 worth of restricted cash consists of required reserve balance of the Central Bank of Turkish Republic (31 December 2017: TL 31,073)

NOTE 5 - FINANCIAL ASSETS

a) Short-term financial assets

As of 31 December 2018 short-term financial assets of the Group consists of time deposits amounting TL 403,180 (original amounting EUR 66,885) with a maturity of 118-119 days bearing an interest rate of %2.65. – 2.90 ((31 December 2017: TL 613,139 (original amounting EUR 135,785) with a maturity of 118-119 days bearing an interest rate of 2.25% - 2.50%).

b) Available for sale financial investments

As of 31 December 2018, the Group has available for sale financial investments amounting to TL 990 (31 December 2017: TL 672).

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)

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

NOTE 6 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

	2018			2017		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in EUR	67,000	403,876	0.40	135,000	589,120	0.40
Borrowings in TL (*)	-	40,000	38	-	90,800	14.39 - 15.75
		443,876			679,920	

b) Short-term portion of long-term financial liabilities

	2018			2017		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in TL (*)	-	857,278	13.97-39.38	-	861,599	11.00 - 18.25
Borrowings in EUR	150,024	904,344	Euribor + %0.55 Euribor + %2.90	164,227	741,568	Euribor+0.55 - Euribor + 2.90
Borrowings in USD (*)	-	-	-	10,000	39,962	3.89
Bonds ^(1,2,3,...5)	255,253	255,253	14.85 - 18.76	257,262	257,262	11.13 - 15.22
		2,016,875			1,900,391	

c) Long-term financial liabilities

	2018			2017		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in EUR	307,559	1,853,966	Euribor + %0.55 Euribor + %2.90	435,039	1,964,420	Euribor+0.55- Euribor+2.90
Borrowings in TL (*)	-	1,014,836	13.97-39.38	-	1,064,244	11.00 - 18.25-
Bonds ^(1,2,3,...5)	-	102,499	14.85 - 18.76	-	201,936	11.13 - 15.22
		2,971,301			3,230,600	

(*) A portion of short-term bank borrowings which are denominated in EUR, the whole short-term and long-term bank borrowings which are denominated in TL and long term bank borrowings which are denominated in USD comprise bank borrowings obtained by KFK, consolidated subsidiary, to finance consumer financing loans as of 31 December 2018 and 2017.

(1) In accordance with the minutes of Board of Directors meeting held on 30 March 2017, based on the required authorization of the Capital Markets Law, the Group issued 18-month maturity bonds on 6 November 2017, nominal amount of TL 50,000 and at an interest rate by 14.34%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Yapı Kredi Yatırım Menkul Değerler A.Ş..

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Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

- (2) In accordance with the minutes of Board of Directors meeting held on 20 September 2017, based on the required authorization of the Capital Markets Law, the Group issued 18-month maturity bonds on 5 December 2017, with a nominal amount of TL 50,000 and at an interest rate by 15.04%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Yapı Kredi Yatırım Menkul Değerler A.Ş..
- (3) In accordance with the minutes of Board of Directors meeting held on 20 September 2017, based on the required authorization of the Capital Markets Law, the Group issued 18-month maturity bonds on 22 December 2017, with a nominal amount of TL 100,000 and at an interest rate by 15.22%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Yapı Kredi Yatırım Menkul Değerler A.Ş..
- (4) In accordance with the minutes of Board of Directors meeting held on 20 September 2017, based on the required authorization of the Capital Markets Law, the Group issued 24-month maturity bonds on 4 May 2018, with a nominal amount of TL 100,000 and at an interest rate by 15.86%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Yapı Kredi Yatırım Menkul Değerler A.Ş..
- (5) In accordance with the minutes of Board of Directors meeting held on 20 September 2017, based on the required authorization of the Capital Markets Law, the Group issued 8-month maturity bonds on 6 June 2018, with a nominal amount of TL 55,000 and at an interest rate by 18.20%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Yapı Kredi Yatırım Menkul Değerler A.Ş..

Financial liabilities denominated in TL and USD have bear fixed interest rates while financial liabilities denominated Euro bear floating interest rates.

As of 31 December 2018, TL 737,491 (31 December 2017: TL 863,778) of short-term and long-term financial liabilities are obtained through banks which are related parties of the Group (Note 27).

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

The redemption schedule of the long-term bank borrowings as of 31 December 2018 and 2017 is as follows:

	2018	2017
1-2 years	1,510,881	1,478,034
2-3 years	1,012,747	920,603
3-4 years	447,673	496,615
4-5 years	-	335,348
Total	2,971,301	3,230,600

The carrying amount of loans received from Eximbank in December 2018 is TL 403,876 (equivalent of EUR 67.000) in the consolidated financial statements (31 December 2017: TL 589,120 (equivalent of EUR 135,000))

The Group has obtained a credit by TL 110.513 (equivalent of EUR 18.333 thousand) (31 December 2017: TL 124.176 (equivalent of EUR 27.500 thousand)) at 9 December 2014 from European Investment Bank (EIB) with a maturity until 2020 in order to use in "New Sedan R&D" projects as of 31 December 2018.

The Company has obtained a working capital loan from HSBC PLC on 31 March 2014 amounting to TL 75.350 (equivalent of EUR 12.499 thousand) (31 December 2017: TL 94.071 (equivalent of EUR 20.833 thousand)) which has a maturity until 2020.

At 26 May 2018 a loan agreement has been signed between the Company and HSBC Bank Plc and Ing Bank, A Branch Of Ing-Diba Ag as creditor, HSBC Bank Plc as coordinator SACE as credit agent role amounting to EUR 70,000 thousand with a maturity until 2022. Maturity schedule of interest payments every six months, which expires in December 2022 and the average maturity is taken into account, the total annual costs, including insurance premiums will be about 6 months Euribor + 1.91%. As of 31 December 2018 the remaining amount is TL 306,880 (the equivalent of EUR 50,909 thousand).

The Group signed the long-term external financing amounting by EUR 250 million with HSBC Bank plc, J.P. Morgan Limited, Societe General and BNP Paribas as authorized regulators and HSBC Bank plc, J.P. Morgan Limited/ JPMorganChase Bank N.A London Branch, Societe General and BNP Paribas Fortis SA/NV as creditor, HSBC Bank Plc as coordinator corporation and BNP Paribas Fortis SA/NV as per procuration on 17 February 2015, the carrying amount of aforementioned loan which is used on Doblo FL and US projects investments in the consolidated balance sheet is TL 645.857 (equivalent of EUR 107.142) (31 December 2017: TL 645.071 (equivalent of EUR 142.857)).

At 11 August 2015, a loan agreement has been signed between the Company and HSBC Bank Plc and Ing Bank, A Branch Of Ing-Diba Ag as creditor, HSBC Bank Plc as coordinator SACE as credit agent role amounting to EUR 200,000 thousand with a maturity until 2022. Maturity schedule of interest payments every six months, which expires in December 2022 and the average maturity is taken into account, the total annual costs, including insurance premiums will be about 6 months Euribor + 2.4%. As of 31 December 2018 the remaining amount is TL 741.907 (the equivalent of EUR 123.076 thousand). (31 December 2017: TL 694.692 (equivalent of EUR 153.846)).

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**Notes to the consolidated financial statements
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NOTE 6 - FINANCIAL LIABILITIES (Continued)

The Group signed the loan agreement amounting to EUR 200 million with European Bank for Reconstruction and Development, HSBC Bank Plc and Bank of America, N.A., London Branch as authorized regulators and as per procurement of creditors on 22 October 2015. Considering the expected loan usage schedule and average term of the aforementioned six-monthly paid loan with the due date of December 2022, Yearly total cost will be 6 months Euribor + 2.3%. EUR100 million of the total loan has been used as of 5 November 2015 and the remaining EUR 100 million is used on March 2016. The remaining balance of the loan which is used Egea Hatchback and Station Wagon projects investments as of 31 December 2018 is TL 741,907 (EUR 123,076 thousand in equivalent in TL) (31 December 2017: TL 694,692 (equivalent of EUR 153,846 thousand)).

The Group signed the loan agreement amounting to EUR 44,300 thousand with Citibank NA Jersey for, MCV FL project as of 24 May 2016. Yearly total cost will be 5 years Euribor + 1.80%. The carrying amount of aforementioned loan in the consolidated balance sheet is TL 133,520 (equivalent of EUR 22,150 thousand) as of 31 December 2018 (31 December 2017: TL140,026 (equivalent of EUR 3 1,010 thousand)).

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	2018	2017
Trade receivables	1,061,316	820,239
Doubtful trade receivables	8,628	7,364
Less: provision for doubtful receivables	(8,410)	(7,146)
Less: unearned credit finance income	(24,097)	(14,978)
	1,037,437	805,479

Movement of the provision for doubtful receivables is as follows:

	2018	2017
1 January	7,146	7,119
Collections	1,264	27
31 December	8,410	7,146

Collateral received related with trade receivables

As of 31 December 2018, the letter of guarantees amounting to TL 121,066 guarantee cheques and notes amounting to TL 2,274 mortgages amounting to TL 40,428 and direct debit system limit (payment guarantee limit secured by the banks) obtained as collateral for Group's trade receivables amount to TL 776,299, respectively (31 December 2017: letter of guarantees amounting to TL 105,542, guarantee notes amounting to TL 2,774, mortgages amounting to TL 49,748 and direct debit system limit amounting to TL 659,932).

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Tofaş Türk Otomobil Fabrikası Anonim Şirketi

**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

b) Trade payables

	2018	2017
Trade payables	1,662,085	1,849,418
Less: not accrued credit finance expense	(42,996)	(19,311)
	1,619,089	1,830,107

NOTE 8 - OTHER RECEIVABLES

a) Other receivables

As of 31 December 2018 other receivables consist of deposits and guarantees given, amounting to TL 1,558 (31 December 2017: TL 333).

b) Other payables

	2018	2017
Other taxes and payables	11,130	16,477
Other	4,930	9,084
	16,060	25,561

NOTE 9 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS

	2018	2017
Short-term consumer financing loans	1,256,948	1,327,381
Non-performing loans	81,272	66,209
	1,338,220	1,393,590
Provision for specific loan impairment	(50,136)	(39,980)
Provision for general loan impairment	(10,785)	(14,127)
	1,277,299	1,339,483
Long-term consumer financing loans	1,026,248	1,209,039
Provision for general loan impairment	(10,418)	(12,405)
	1,015,830	1,196,634

As of 31 December 2018, TL denominated loans originated by the Group, bear interest rates ranging between 0.01% and 3,29% per month (2017: between 0.01% and 1.59% per month).

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**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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NOTE 9 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS (Continued)

The maturities of long-term consumer financing loans are as follows:

Years	2018	2017
1 to 2 years	634,955	703,788
2 to 3 years	314,056	363,796
3 to 4 years	66,680	128,966
4 years and more	139	84
	1,015,830	1,196,634

Movements in the allowance for loan impairment are as follows:

	2018	2017
1 January	66,512	55,276
Current year provision	28,579	15,022
Collections during the year (-)	(23,752)	(3,786)
31 December	71,339	66,512

The Group has obtained pledge rights as a guarantee for its consumer financing loans, up to total amount of receivables, depending on the agreement between the Group and the consumers. As of 31 December 2018, the fair value of guarantees obtained for the consumer loans amount to TL 2,823,106 (31 December 2017: TL 3,068,049). Furthermore, the Group obtains mortgage guarantees where necessary. The Group has mortgage guarantee on vehicles for all consumer financing loans that Group booked special provision amounting to TL 32.331 (31 December 2017: TL 21,973 TL) as of 31 December 2018.

NOTE 10 – INVENTORIES

	2018	2017
Raw materials	286,344	223,297
Work-in-progress	241,445	205,305
Finished goods	167,045	247,466
Imported vehicles	193,379	162,791
Spare parts	89,948	73,694
Goods in transit	127,780	171,547
Less: provision for impairment on inventories	(29,270)	(28,518)
Total	1,076,671	1,055,582

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Notes to the consolidated financial statements
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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

NOTE 10 - INVENTORIES (Continued)

Movements in the provision for impairment on inventory are as follows:

	2018	2017
1 January	28,518	24,127
Current year provision	752	4,391
31 December	29,270	28,518

NOTE 11 - INVESTMENT PROPERTIES

For the years ended 31 December 2018 and 2017, the movement of investment properties is as follows:

	2018	2017
1 January, net book value	31,175	30,370
Fair value increase (*)	29,325	805
31 December, net fair value	60,500	31,175

- (*) As of 31 December 2018, the fair value of the property has been determined as TL 60,500 (31 December 2017: TL 31,175), by using benchmarking method. As a result of the revaluation of the investment property, revaluation gains amounting to TL 29,325 (31 December 2017: TL 805) has been accounted under income from investing activities (Note 23). Relevant valuation report is prepared by an independent firm which has CMB license and necessary professional experience.

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment and the accumulated depreciation as of 31 December 2018 is as follows:

	Land, land improvements and buildings	Machinery and equipments	Furniture and fixtures	Vehicles	Leasehold improvements	Construction in progress	Total
1 January, net book value							
Cost	462,845	5,076,831	612,861	77,123	12,623	15,325	6,257,608
Accumulated depreciation	(235,129)	(3,234,845)	(379,527)	(50,661)	(7,427)	-	(3,907,589)
Net book value	227,716	1,841,986	233,334	26,462	5,196	15,325	2,350,019
1 January 2018, net book value	227,716	1,841,986	233,334	26,462	5,196	15,325	2,350,019
Additions	-	-	242	780	89	328,729	329,840
Disposals	(321)	(8,042)	(7,492)	(18,070)	-	-	(33,925)
Disposal - Depreciation	307	7,395	6,570	5,212	-	-	19,484
Transfers	48,582	164,137	61,643	18,086	38	(292,486)	-
Depreciation charge for the year	(9,445)	(345,486)	(51,363)	(10,327)	(1,196)	-	(417,817)
31 December 2018, net book value	266,839	1,659,990	242,934	22,143	4,127	51,568	2,247,601
As of 31 December 2018							
Cost	511,106	5,232,926	667,254	77,919	12,750	51,568	6,553,523
Accumulated depreciation	(244,267)	(3,572,936)	(424,320)	(55,776)	(8,623)	-	(4,305,922)
31 December 2018, net book value	266,839	1,659,990	242,934	22,143	4,127	51,568	2,247,601

As of 31 December 2018, there are no pledges or collaterals on property, plant and equipment.

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Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment and the accumulated depreciation as of 31 December 2017 is as follows:

	Land, land improvements and buildings	Machinery and equipments	Furniture and fixtures	Vehicles	Leasehold improvements	Construction in progress	Total
1 January, net book value							
Cost	456,988	4,717,797	554,310	72,753	11,233	76,785	5,889,866
Accumulated depreciation	(226,686)	(2,945,388)	(343,768)	(46,604)	(6,802)	-	(3,569,248)
Net book value	230,302	1,772,409	210,542	26,149	4,431	76,785	2,320,618
1 January 2017, net book value	230,302	1,772,409	210,542	26,149	4,431	76,785	2,320,618
Additions	-	6	132	1,273	163	404,104	405,678
Disposals	(358)	(17,120)	(10,415)	(10,043)	-	-	(37,936)
Disposals - Depreciation	110	16,217	9,904	5,311	-	-	31,542
Transfers (*)	6,215	376,148	68,834	13,140	1,227	(465,564)	-
Depreciation charge for the year	(8,553)	(305,674)	(45,663)	(9,368)	(625)	-	(369,883)
31 December 2017, net book value	227,716	1,841,986	233,334	26,462	5,196	15,325	2,350,019
As of 31 December 2017							
Cost	462,845	5,076,831	612,861	77,123	12,623	15,325	6,257,608
Accumulated depreciation	(235,129)	(3,234,845)	(379,527)	(50,661)	(7,427)	-	(3,907,589)
31 December 2017, net book value	227,716	1,841,986	233,334	26,462	5,196	15,325	2,350,019

As of 31 December 2017, there are no pledges or collaterals on property, plant and equipment.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)

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

NOTE 13 - INTANGIBLE ASSETS

The movement of intangible assets is as follows:

	Licenses and development costs	Other	Total
1 January 2018			
Cost	3,427,131	117,031	3,544,162
Accumulated amortization	(1,755,879)	(84,418)	(1,840,297)
Net book value	1,671,252	32,613	1,703,865
1 January 2018, net book value	1,671,252	32,613	1,703,865
Additions	220,382	27,245	247,627
Amortization charge for the year	(362,871)	(9,160)	(372,031)
31 December 2018, net book value	1,528,763	50,698	1,579,461
As of 31 December 2018			
Cost	3,647,513	144,276	3,791,789
Accumulated amortization	(2,118,750)	(93,578)	(2,212,328)
31 December 2018, net book value	1,528,763	50,698	1,579,461
	Licenses and development costs	Other	Total
1 January 2017			
Cost	3,169,735	98,510	3,268,245
Accumulated amortization	(1,423,126)	(74,920)	(1,498,046)
Net book value	1,746,609	23,590	1,770,199
1 January 2017, net book value	1,746,609	23,590	1,770,199
Additions	257,396	18,521	275,917
Amortization charge for the year	(332,753)	(9,498)	(342,251)
31 December 2017, net book value	1,671,252	32,613	1,703,865
As of 31 December 2017			
Cost	3,427,131	117,031	3,544,162
Accumulated amortization	(1,755,879)	(84,418)	(1,840,297)
31 December 2017, net book value	1,671,252	32,613	1,703,865

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**Notes to the consolidated financial statements
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NOTE 14 - GOVERNMENT INCENTIVES

Investment incentive certificates

The Group has obtained investment encouragement certificates from government authorities in connection with certain major capital expenditures, which entitle the Group to:

- i) 100% exemption from customs duty and VAT on machinery and equipment to be imported
- ii) 100% VAT exemption on local capital expenditures
- iii) Corporate tax exemption

The Group has considered its investment expenditures amounting to TL 2,244,811 (31 December 2017: TL 2,259,120) in the context of the investment certificate obtained on 2009 and on 2013 in the deferred tax calculation in accordance with the aforementioned law (Note 25).

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 100% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations. The aforementioned law has been enacted as of 1 April 2008. Accordingly, in 2008, income tax-payers can deduct 100% of the expenditures which are related to research and development related to new technology and information developments.

As of 31 December 2018, total amount of research and development expenses is TL 268.872. The amount subject to corporate income tax R&D allowance is TL 234.075 after deduction of TEYDEB, European and Mess support collected during the year amounting to TL 3,403 and TL 31.394 which is not subject to corporate income tax research and development allowance. (As of 31 December 2017, total amount of research and development expenses is TL 243.912 The amount subject to corporate income tax R&D allowance is TL 187.110 after deduction of TEYDEB support collected during the year amounting to TL 5.026 and TL 51.776 which is not subject to corporate income tax research and development allowance).

As of 31 December 2018 government incentives of the Group amounting to TL 8,374 (31 December 2017: TL 8,374) long-term and TL 21.924 (31 December 2017: TL 30,298) long term, have been originated from deferral of research and development incentive premiums provided to support research and development expenditures of Mini Cargo and New Doblo projects by the Scientific & Technological Research Council of Turkey (Tübitak). The related balance will be offset on amortization expense in cost of goods sold in line with the amortization terms of the research and development investments.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	2018	2017
Provision for warranty claims	147,956	135,401
Provision for legal cases	8,359	7,754
Administrative expense accruals	-	6,312
Other	284	61,562
	156,599	211,029

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Movement of the provision for warranty is as follows:

	2018	2017
1 January	135,401	91,551
Paid during the year	(90,888)	(64,045)
Increase in provision during the year (Note 20)	109,934	107,895
The effect of IFRS 15 (Note 2.2)	(6,491)	-
31 December	147,956	135,401

The movement of the provision for litigation is as follows:

Litigations against the Group

As of 31 December 2018 the total amount of outstanding legal claims brought against the Group is TL 15,092 (31 December 2017: TL 11,128). The Group has reflected a reserve amounting to TL 8,359 (31 December 2017: TL 7,754) in the consolidated financial statements.

Guarantees provided by the Group:

The breakdown of letters of guarantee, guarantee notes given, mortgage and pledges (together referred to as guarantees) by the Group as of 31 December 2018 and 2017 is as follows:

	2018			2017		
	TL equivalent	EUR	TL	TL equivalent	EUR	TL
A. Total amount of guarantees provided by the Company on behalf of itself	458,629	37,000	235,593	358,733	77,000	11,039
B. Total amount of guarantees provided on behalf of the associates accounted under full consolidation method	-	-	-	-	-	-
C. Provided on behalf of third parties in order to maintain operating activities (to secure third party payables)	-	-	-	-	-	-
D. Other guarantees given	-	-	-	-	-	-
i) Total amount of guarantees given on behalf of the parent Company	-	-	-	-	-	-
ii) Total amount of guarantees provided on behalf of the associates which are not in the scope of B and C	-	-	-	-	-	-
iii) Total amount of guarantees provided on behalf of third parties which are not in the scope of C	-	-	-	-	-	-
Total	458,629	37,000	235,593	358,733	77,000	11,039

Other

As of 31 December 2018 the Group has realized USD 3,009,334,680 thousand of export commitments numbered 2017/D1-03216 to be realized until 22 November 2018 in connection with the export incentive certificates amounting to USD 3,055,356,251.27 thousand. The Group has realized USD 1,866,984,580 thousand of export commitments in connection with the export incentive certificates amounting to USD 1,445,920,978.53 thousand.

Furthermore, the Group has realized USD 2,552,072,000 thousand of export commitments numbered 2018/D1-02520 to be realized until 17 April 2019 in connection with the export incentive certificates amounting to USD 1,430,503,838.50 thousand. The Group has realized USD 1,572,282,300 thousand of export commitments in connection with the export incentive certificates amounting to USD 409,520,128.43 thousand.

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**Notes to the consolidated financial statements
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NOTE 16 - EMPLOYEE BENEFITS

a) Short-term employee benefits:

	2018	2017
Payables to employees	43,177	35,381
Personnel income tax	24,511	20,215
Social security premiums	20,769	30,106
Unused vacation provision	5,882	8,315
Other	5,849	3,434
Total	100,188	97,451

b) Long-term employee benefits:

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The amount payable consists of one month's salary limited to a maximum of TL 5,434.42 (exact TL) for each period of service as of 31 December 2018 (31 December 2017: TL 4732.48).

In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds in accordance with TAS 19. Assumptions used in the calculations are as follows:

	2018	2017
Discount rate, net (%)	5.65	4.95
Estimated turnover rate for retirement (%)	98.29	98.02

Movement in reserve for employment termination benefits for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
1 January	194,235	171,155
Service expenses	18,534	20,344
Interest expenses	22,861	19,938
Payments during the year	(41,714)	(33,895)
Actuarial loss	1,986	16,693
31 December	195,902	194,235

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

	Net discount rate		Turnover rate related to the probability of retirement	
	%0,5 decrease	%0,5 increase	%0,5 decrease	%0,5 increase
Rate (%)	5,15%	6,15%	97,79%	98,79%
Change in provision for employee benefits	8.651.963	(7.869.160)	(2.149.976)	2.271.206

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**Notes to the consolidated financial statements
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NOTE 17 - PREPAID EXPENSES, OTHER ASSETS AND LIABILITIES

a) Other current assets

	2018	2017
Value Added Tax ("VAT")	145,837	228,216
Accrued Social Security Institution Incentives	5,488	-
Other	11,843	7,539
	163,168	235,755

b) Short - term prepaid expenses

	2018	2017
Credit commission expenses (*)	38,710	47,447
Advances given	13,079	18,053
Other	27,316	24,238
	79,105	89,738

(*) Credit commission expenses are composed of the credit commission given to dealers in advance by KFK as of 31 December 2018 and 2017.

c) Long - term prepaid expenses:

As of 31 December 2018, TL 68,334 (31 December 2017: TL 92,229) of non-current prepaid expenses are composed of advances given for fixed asset purchases amounting to TL 67,110.

d) Other current liabilities

	2018	2017
Taxes and funds payable	7	808
Other	5,242	8,830
Total	5,249	9,638

e) Deferred income

As of December 31, 2018, TL 56,232 of the deferred income amounting to TL 24,995 (December 31, 2017: TL 47,382) consists of the received intelligence income in advance of the KFK, consumer receivables amounting to TL 4,810, amounting TL 20.189 of the effect on IFRS 15 and advances received amounting to TL 6,238.

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**Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)**

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NOTE 18 - SHAREHOLDER'S EQUITY

a) Share capital/adjustments to share capital and equity investments

Registered capital ceiling of the Company is KTL 1,000. The Company's historical authorized and issued share capital as of 31 December 2018 and 2017 is KTL 500.000 (exact TL) and consists of 50 billion shares with TL 0.01 (exact TL) par value each. As of 31 December 2018 and 2017, the breakdown of issued share capital of the Company is as follows:

		2018		2017	
	Share group	Amount (historical)	Amount %	Amount (historical)	Amount %
FCA Italy S.p.A.	D	189,280	37,86	189,280	37,86
Koç Holding A.Ş.	A	187,938	37,59	187,938	37,59
Koç Holding companies and Koç family	A	1,342	0,27	1,342	0,27
Other, including publicly traded shares	E	121,440	24,28	121,440	24,28
Total paid in share capital		500,000	100	500,000	100

Half of the Board of Directors' ("BoD") members are required to be elected from the nominees of A group shareholders, while the remaining half is to be nominated by D group shareholders. The General Assembly is authorized for determining the number and election of BoD members. At least one nominee from both A and D type of shareholders have to fulfill the requirements of an independent member as prescribed by the CMB legislation.

b) Legal reserves - retained earnings

Retained earnings in statutory records is available for distribution, except the fact mentioned below.

The legal reserves consist of first and second legal reserves, per the Turkish Commercial Code (TCC). The Turkish Commercial Code stipulates that the first legal reserve is appropriated out of net statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's historical paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the historical paid-in share capital. Under the Turkish Commercial Code, the legal reserves are not available for distribution unless they exceed 50% of the historical paid-in share capital but may be used to offset losses in the event that historical general reserve is exhausted.

Listed companies are subject to dividend requirements regulated by the Turkish Capital Market Board as follows:

In accordance with the Capital Market Board decision number 1/6 dated 9 January 2009, during the calculation of distributable profits by the companies obliged to prepare financial statements; the companies can determine the amount of distributable profits by taking into account the net profit on the financial statements that are prepared and announced to the public according to No:XI-29 "Communiqué on Financial Reporting Standards in Capital Markets" which includes profits from associates, joint ventures and subsidiaries that are transferred to the profit of the Company, regardless of whether these companies' general assembly approved any dividend distributions, as soon as these distributable profits can be funded by the reserves in the statutory accounts of the companies.

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**Notes to the consolidated financial statements
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NOTE 18 - SHAREHOLDER'S EQUITY (Continued)

In accordance with the Capital Market Board decision on 27 January 2010, it is decided that there is no dividend distribution requirements for the listed companies whose shares are traded on the stock exchange.

Inflation adjustment to shareholders' equity can only be netted-off against prior years' losses and used as an internal source in capital increase where extraordinary reserves can be netted-off against prior years' loss and used in the distribution of bonus shares and dividends to shareholders. Inflation adjustment to shareholders' equity, in the case of cash used for profit distribution will be subject to corporate income tax.

In accordance with the decision taken at the General Assembly Meeting held on 15 March 2018, dividend amounting to TL 800,000 related to the profit of 2017 after deduction of legal liabilities, is distributed from retained earnings to the shareholders (31 December 2017: amounting to TL 350,000 related to the profit of 2016). As of 31 December 2018 and 2017, dividend distributed per share is Kuruş 1.60 and Kuruş 0.70, respectively.

Historical values of legal and extraordinary reserves of the Company in the statutory financial statements are as follows:

	2018	2017
Legal reserves	387,266	309,863
Extraordinary reserves	41,481	33,840
	428,747	343,703

NOTE 19 - REVENUE AND COST OF SALES

a) Revenue

	2018	2017
Export sales	14,455,023	11,887,628
Domestic sales	3,934,701	5,408,765
Other	213,607	171,413
	18,603,331	17,467,806

The amount of sales discounts is TL 468,080 (31 December 2017: TL 465,768).

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**Notes to the consolidated financial statements
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NOTE 19 - REVENUE AND COST OF SALES (Continued)

The distribution of the Group's sales in 2018 and 2017 based on product type is as follows.

	2018	2017
Passenger cars	9,670,938	9,026,836
Commercial vehicles	7,849,632	7,482,434
Spare parts	869,154	787,123
Other	213,607	171,413
	18,603,331	17,467,806

b) Other

	2018	2017
Income from scrap sales	109,712	81,141
Income from research and development	48,613	45,218
Package sales income	26,198	20,449
Income from mould sales	26,017	2,635
Revenue from extended warranty sales	2,372	656
Other	695	21,314
	213,607	171,413

As the extended warranty income in the Group's revenue items is a time-consuming performance obligation, they are recognized as revenue in the related period.

All items of the Group's revenue consist of goods and services sold through intermediaries.

c) Cost of sales

	2018	2017
Direct material expense	13,599,141	13,093,206
Depreciation and amortization expense	741,542	654,312
Direct labor expense	269,149	253,780
Other production expenses	539,291	501,345
Change in work-in-process	(36,140)	(50,587)
Change in finished goods	80,421	(82,916)
Cost of merchandise sold	996,206	1,181,987
Cost of other sales	533	550
	16,190,143	15,551,677

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Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)

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NOTE 19 - REVENUE AND COST OF SALES (Continued)

d) Production and sales quantities

	Production		Sales	
	2018	2017	2018	2017
Manufactured vehicles				
New Doblo	104,198	116,891	104,516	118,256
Egea	55,901	76,194	57,586	73,346
Egea Hatchback	51,306	63,077	51,325	63,123
MCV	49,693	78,863	49,981	79,401
Egea Stationwagon	40,652	39,348	40,656	39,429
Linea	-	9,801	1,461	8,436
	301,750	384,174	305,525	381,991
Imported vehicles				
	Import		Sales	
	2018	2017	2018	2017
Jeep	2,677	2,563	2,402	2,301
Ducato	1,195	5,457	2,224	5,498
Fiat 500	1,075	1,564	762	1,644
Alfa Romeo	370	288	189	311
Fullback	177	380	135	1,129
Panda Futura	80	62	75	103
Maserati	57	79	46	85
Transit	34	-	34	59
Ferrari	17	17	18	16
Grande Punto	2	415	79	371
Fiat 124 Spider	-	69	10	59
	5,684	10,894	5,974	11,576

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Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)

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**NOTE 20 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES AND
GENERAL ADMINISTRATIVE EXPENSES**

	2018	2017
Marketing expenses	362,325	392,816
General and administrative expenses	329,856	273,006
Research and development expenses	66,441	55,607
	758,622	721,429

a) Marketing expenses

	2018	2017
Warranty expenses (Note 15)	109,934	107,895
Personnel expenses	71,725	58,088
Transportation and insurance expenses	60,247	80,319
Advertisement expenses	58,389	76,968
Travel expenses	7,331	7,062
Depreciation and amortization expenses	4,429	7,734
Other	50,270	54,750
	362,325	392,816

b) General administrative expenses

	2018	2017
Personnel expenses	124,077	111,974
Services obtained from third parties	39,309	30,032
Information technology expenses	37,322	28,487
Depreciation and amortization expenses	26,382	25,052
Lawsuit provision expenses	8,529	11,485
Insurance expenses	8,145	7,256
Travel expenses	7,717	7,729
Donations	6,746	7,023
Duties, taxes and levies	5,590	6,699
Rent expenses	3,327	2,753
Other	62,712	34,516
	329,856	273,006

(Convenience translation of consolidated financial statements originally issued in Turkish)

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

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

NOTE 20 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES (Continued)

c) Research and development expenses

	2018	2017
Personnel expenses	30,888	26,784
Travel expenses	8,666	5,767
Information technology expenses	3,556	2,178
Depreciation and amortization expenses	2,701	9,360
Other	20,630	11,518
	66,441	55,607

NOTE 21 - EXPENSES BY NATURE

Between 1 January – 31 December 2018 Group's personnel and depreciation/ amortization expenses are TL 852,757 and TL 775,054 respectively (between 1 January – 31 December 2017: TL 774,509 and TL 696,679 respectively).

NOTE 22 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	2018	2017
Foreign exchange gains on operating activities	3,073,774	851,733
Interest income on operating activities	200,633	145,622
Other	40,778	38,418
	3,315,185	1,035,773
	2018	2017
Foreign exchange loss on operating activities	(3,602,866)	(1,093,154)
Interest expense on operating activities	(237,889)	(156,858)
Other	(51,648)	(31,209)
	(3,892,403)	(1,281,221)

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**Notes to the consolidated financial statements
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NOTE 23 – INCOME FROM INVESTMENT ACTIVITIES

	2018	2017
Revaluation income of investment property (Note 11)	29,325	805
Gain on sale of property, plant and equipment	5,356	3,831
	34,681	4,636

NOTE 24 - FINANCIAL INCOME AND EXPENSES

	2018	2017
Foreign exchange gain	2,114,053	988,643
Interest income	115,433	116,187
Gain on derivative financial instruments	20,286	171
Total financial income	2,249,772	1,105,001
Foreign exchange loss	(2,084,280)	(858,250)
Interest expenses	(87,265)	(78,925)
Other	(2,320)	(2,318)
Total financial expenses	(2,173,865)	(939,493)
Financial expenses, net	75,907	165,508

NOTE 25 - TAX ASSETS AND LIABILITIES

General

Tax expense includes current tax expense and deferred tax expense. Tax is recognized in the statement of profit or loss, provided that it is not related to a transaction accounted directly under equity. Otherwise, the tax effect is recognized under equity as well as the related transaction.

In the Turkish taxation system, tax losses can be offset against future taxable income for the next five years and are not deductible (retrospectively) from previous years' earnings.

In addition, temporary taxes are levied at a rate of 20% (22% for taxation periods of 2018, 2019 and 2020) over the bases declared in interim periods during the year to be deducted from the corporation tax.

As of December 31, 2018 and 2017, the tax provision has been set aside under the current tax legislation.

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between their statement of financial position accounts prepared in accordance with TAS/IFRS promulgated by POA Financial Reporting Standards and their statutory financial statements. Deferred tax is calculated using tax rates that are currently in effect as of the date of the statement of financial position.

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Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2018, the tax rate of 22% is used for the temporary differences expected to be realized / settled within 3 years (2018, 2019 and 2020) for the deferred tax calculation since the tax rate applicable for 3 years has been changed to 22%. However, 20% tax rate is used for the current differences expected / expected to be incurred after 2020 since the tax rate applicable for post-2020 corporations is 20%.

Deferred tax liabilities are recognized for all taxable temporary differences, whereas deferred tax assets resulting from deductible temporary differences are calculated to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are offset against each other if the same country is subject to tax legislation and there is a legally enforceable right to offset current tax assets against current tax liabilities.

Tax assets and liabilities

Corporation tax

The Company and its subsidiaries established in Turkey and other countries in the scope of consolidation, associates and joint ventures are subject to the tax legislation and practices in force in the countries they are operating.

The corporate tax rate in Turkey is 20% (However, the Corporate Tax Law added to the provisional 10th in the 20% corporate tax rate in accordance with Article institutions in 2018, 2019 and the taxation period in 2020 (related to corporate defined special accounting period (for the fiscal periods starting within the year) will be applied as 22% for the corporate earnings of 2017 - 20%). Institutional tax rate is applied to the income of corporations in the net income which will be deducted from the commercial income according to the tax legislation and deduction of the exemptions and discounts in the tax laws. The corporate tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the year in which it relates, and is paid in one installment until the end of the relevant month.

Corporations declare their advance tax returns at the rate of 20% (22% for taxation periods of 2018, 2019 and 2020) on their quarterly financial profits, until the 14th day of the second month following that period and pay till the evening of the seventeenth day. The temporary tax paid during the year belongs to that year and is deducted from the corporation tax that will be calculated on the tax declaration of the institutions to be given in the following year. If the prepaid tax amount remains in spite of the indictment, this amount can be refunded or any other financial debt to the state can be deducted.

According to the Corporate Tax Law, financial losses shown on the declaration can be deducted from the corporate tax base of the period not exceeding 5 years. Declarations and related accounting records can be examined by the Tax Authority within five years of the related corporate income filing.

15% withholding applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distributions by resident corporations to resident corporations are 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. Dividend payments made to resident corporations in Turkey again from resident companies in Turkey are not subject to income tax. In addition, if the profit is not distributed or added to the capital, the income tax is not calculated.

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Notes to the consolidated financial statements
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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

Turkish tax legislation does not permit a parent company with its subsidiaries to file a tax declaration on its consolidated financial statements. Thus, tax liabilities recognized in the Consolidated Financial Statements of the Group are separately calculated for all subsidiaries included in the scope of consolidation. On the statement of financial position as of December 31, 2018 and December 31, 2017, taxes payable are netted off for each subsidiary and are separately classified in the Consolidated Financial Statements.

For the years ended 31 December 2018 and 2017, the analysis of the tax expense in the profit or loss is as follows

	2018	2017
Current tax expense	(25,887)	(26,503)
Deferred tax income	65,416	79,849
	39,529	53,346
	2018	2017
Current corporate tax	25,887	26,503
Less: prepaid corporate tax	(34,030)	(27,489)
Prepaid income tax	(8,143)	(986)

The analysis of tax expense accounted for under the statement of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Profit before tax	1,290,894	1,229,472
Income tax charge at effective tax rate (20%)	(283,997)	(245,894)
Disallowable expenses	(745)	(571)
Deduction of research and development incentive expenditures during the period	51,496	37,422
Effect of investment incentive, net	109,147	132,153
Adjustments not subject to deferred taxation	148,614	118,351
Used and earned investment incentive	15,014	11,885
	39,529	53,346

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Notes to the consolidated financial statements
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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

b) Deferred tax assets and liabilities

The breakdown of temporary differences and the resulting deferred tax assets as of 31 December 2018 and 2017, using the effective tax rates were as follows

	Cumulative temporary differences		Deferred tax assets / (liabilities)	
	2018	2017	2018	2017
Unused investment incentive allowances (*)	2,244,811	2,259,120	1,066,002	917,388
Provision for employment termination benefits and unused vacation	206,432	206,709	43,190	43,365
Warranty provisions	147,956	135,401	31,651	27,691
Inventories	50,584	39,422	11,128	8,673
Deferred income	42,112	23,105	9,265	5,083
Property, plant and equipment and intangibles	(1,023,470)	1,151,015	(211,985)	(238,580)
Other	(98,659)	27,670	(7,648)	5,828
Deferred tax asset, net			941,603	769,448

(*) The Group uses various discounted tax rates in relation to its fixed asset investments.

The movement of the deferred tax asset balance during the year is as follows:

	2018	2017
Deferred tax asset at 1 January	769,448	598,096
Deferred tax income	65,416	79,849
Other comprehensive income	106,739	91,503
- Actuarial gain/(loss) on employment termination benefit obligation attributable to equity	415	3,496
- Net gain on cash flow hedging attributable to equity	106,324	88,007
Deferred tax assets at 31 December	941,603	769,448

NOTE 26 - EARNINGS PER SHARE

Earnings per share are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned. In 2018 and 2017, the weighted average number of shares outstanding is 50,000,000,000 and as of 31 December 2018 and 2017 earnings per share is Kuruş 2.66 and Kuruş 2.57, respectively.

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NOTE 27 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related party balances:

Deposit and financial loan balances from related parties	2018	2017
Yapı ve Kredi Bank A.Ş. (deposit) ⁽¹⁾	1,556,962	1,679,752
Yapı ve Kredi Bank A.Ş. (financial loan) ⁽¹⁾	(737,491)	(863,778)
Trade receivables due from related parties	2018	2017
Fiat ⁽²⁾	570,692	440,382
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	501,049	514,753
Other ⁽¹⁾	4,009	12,057
Less: Unearned credit finance expense	(15,843)	(7,912)
	1,059,907	959,280
Trade payables due to related parties	2018	2017
Fiat ⁽²⁾	1,573,080	1,932,230
Other ⁽¹⁾	104,461	104,545
Less: Unearned credit finance expense	(2,647)	(1,276)
	1,674,894	2,035,499
Related party transactions		
Sales	2018	2017
Fiat ⁽²⁾	14,467,193	11,447,603
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	1,551,419	1,880,907
Other ⁽¹⁾	128,435	36,488
	16,147,047	13,364,998
Domestic goods and services purchases	2018	2017
Ram Dış Ticaret ⁽¹⁾	372,374	259,042
Mako Elektrik Sanayi ve Ticaret A.Ş. ⁽¹⁾	214,532	183,643
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	170,924	153,285
Matay Otomotiv Yan Sanayi ve Tic. A.Ş. ⁽¹⁾	146,865	107,753
Zer Merkezi Hiz. ve Tic. A.Ş. ⁽¹⁾	138,070	169,895
Plastiform Plastik San. Tic. A.Ş. ⁽¹⁾	53,225	48,586
Sistemi Comandi Meccanici Otomotiv San. Tic. A.Ş. ⁽¹⁾	51,528	50,075
Magnetli Marelli Süspansiyon Sistemleri Tic. Ltd. Şti. ⁽¹⁾	50,555	52,342
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ⁽¹⁾	24,560	17,660
Koç Holding A.Ş. ^{(2) (*)}	21,395	11,355
Setur Servis Turistik A.Ş. ⁽¹⁾	18,989	19,254
Opet Fuchs Madeni Yağlar San. ve Tic. A.Ş. ⁽¹⁾	15,402	11,902
Akpa Dayanıklı Tüketim Lpg ve Akaryakıt Ürünleri Paz. A.Ş. ⁽¹⁾	12,170	12,117
Other ⁽¹⁾	53,006	20,829
Total	1,343,595	1,117,738

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**Notes to the consolidated financial statements
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NOTE 27 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Foreign trade good, material and service purchase	2018	2017
Fiat ⁽²⁾	7,701,415	7,649,951
Other ⁽¹⁾	55,991	77,114
	7,757,406	7,727,065

(1) Represents the related parties of joint ventures; comprise of subsidiaries, joint managing company or associates.

(2) Represents the joint ventures.

(*) These service expenses are related with the invoices arising from the allocation of finance, law, planning, tax consultancy services provided by our shareholder, Koç Holding A.Ş. to its subsidiaries and associates. Expenses related to these services provided by Koç Holding A.Ş. are allocated in accordance with the General Communiqué on Disguised Profit Distribution by Means of Transfer Pricing - 11 Intra-group Services regulations.

Interest income from related parties, for the year ended 31 December 2018 is TL 71,028 (31 December 2017: TL 40,334).

Salaries and similar benefits paid to the top management of the Group for the year ended 31 December 2018 (36 person) (31 December 2017: 33 person) is TL 33,737 (2017: TL 28,421).

Furthermore, as of 31 December 2018, wholly owned subsidiary KFK has sold the exclusive issuance of bonds and treasury bills over subsidiaries. It is accounted under other financial liabilities with a carrying amount of TL 282,535 (31 December 2017: TL 443,287).

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Group's principal financial instruments are cash and cash equivalents and bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Group management reviews and agrees policies for managing each of the risks as summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of the counterparties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit screening procedures and the Group also obtains collaterals from customers when appropriate. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Trade receivables are evaluated by management based on their past experiences and current economic condition, and are presented in financial statements net of provision for doubtful receivables (Note 7).

Amounts carried in the balance sheet reflect maximum credit risk of the Group.

Tofaş Türk Otomobil Fabrikası Anonim Şirketi

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The amounts stated in the balance sheets reflects the maximum risk exposure of the Group.

Types of credit exposure of financial instruments;

Trade receivables						
2018	Related parties	Other parties	Other receivables	Bank deposits	Derivative instruments	Receivables from finance operations
Maximum credit risk exposure as of reporting date (A+B+C+D+E) ⁽¹⁾	1,059,907	1,037,437	1,385	1,981,012	404,170	2,293,129
- Maximum risk secured by guarantee ⁽²⁾	33,700	906,367	-	-	-	2,931,283
A. Net book value of financial assets neither overdue nor impaired	1,056,803	988,225	1,385	1,981,012	404,170	2,223,687
- Maximum risk secured by guarantee	33,700	881,588	-	-	-	2,893,360
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-	-	-
C. Net book value of assets overdue but not impaired	3,104	48,994	-	-	-	38,306
- Maximum risk secured by guarantee	-	24,779	-	-	-	37,923
D. Net book value of impaired assets	-	218	-	-	-	31,136
- Overdue (gross book value)	-	8,628	-	-	-	81,272
- Impairment (-)	-	(8,410)	-	-	-	(50,136)
- Net value under guarantee	-	-	-	-	-	-
- Not overdue (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value under guarantee	-	-	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-	-	29,522
	-	-	-	-	-	-
Trade receivables						
2017	Related parties	Other parties	Other receivables	Bank deposits	Derivative instruments	Receivables from finance operations
Maximum credit risk exposure as of reporting date (A+B+C+D+E) ⁽¹⁾	959,280	805,479	186	2,625,681	613,811	2,536,117
- Maximum risk secured by guarantee ⁽²⁾	34,250	817,406	-	-	-	3,068,049
A. Net book value of financial assets neither overdue nor impaired	953,597	720,728	186	2,625,681	613,811	2,493,932
- Maximum risk secured by guarantee	34,250	817,406	-	-	-	3,054,986
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-	-	-
C. Net book value of assets overdue but not impaired	5,683	84,533	-	-	-	15,956
- Maximum risk secured by guarantee	304	37,958	-	-	-	13,063
D. Net book value of impaired assets	-	218	-	-	-	26,229
- Overdue (gross book value)	-	7,364	-	-	-	66,209
- Impairment (-)	-	(7,146)	-	-	-	(39,980)
- Net value under guarantee	-	-	-	-	-	-
- Not overdue (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value under guarantee	-	-	-	-	-	21,973
E. Off- balance sheet items having credit risk	-	-	-	-	-	-

(1) Guarantees received and factors increasing the loan reliability are not considered when determining this amount.

(2) Guarantees consist of guarantee notes, guarantee checks, mortgages and car pledges received from customers.

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Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Aging analysis of trade receivables and receivables from finance sector operations

Aging of the Group's receivables which are overdue but not impaired is as follows:

2018	
1 - 30 days past due	29,164
1 - 3 months past due	21,221
3 - 12 months past due	32,796
1 - 5 years past due	7,223
	90,404
2017	
1 - 30 days past due	59,494
1 - 3 months past due	18,989
3 - 12 months past due	4,332
1 - 5 years past due	23,357
	106,172

Amount secured with guarantee

-

As of 31 December 2018, TL 1,379 of total past due receivables of the Group is due from the Group's related party, Fiat (31 December 2017: TL 2,886). As of 31 December 2018, the Group's payables to Fiat amounting to TL 1,573,080 (31 December 2017: TL 1,865,131).

Foreign currency risk

The Group is exposed to foreign exchange risk arising from the ownership of foreign currency denominated assets and liabilities with sales or purchase commitments. The policy of the Group is to compare every foreign currency type for the probable sales or purchases in the future.

As explained in detail in Note 6, according to the manufacturing agreements signed by the Group, the repayment obligations related to loans obtained for Doblo and Mini Cargo are guaranteed by Fiat and PSA through future purchases. As of 31 December 2018, loans obtained related with Doblo vehicle project have entirely been repaid. The Group's exposure to foreign exchange rate and interest rate fluctuations in relation with the loan obtained to manufacture Egea Stationwagon/Hatchback vehicles is undertaken by Fiat.

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Notes to the consolidated financial statements
for the year ended 31 December 2018 (continued)

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

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

2018	TL equivalent (functional currency)	USD	EUR	Other
1. Trade receivables	567,412	89	94,052	-
2a. Monetary financial assets (including cash, bank accounts)	1,591,760	6	264,056	-
2b. Non-monetary financial assets	136,226	-	22,599	-
3. Other	9,022	-	1,497	-
4. Current assets (1+2+3)	2,304,420	95	382,204	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	60,278	-	10,000	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	60,278	-	10,000	-
9. Total assets (4+8)	2,364,698	95	392,204	-
10. Trade payables	(1,544,353)	(1,088)	(255,244)	(2)
11. Financial liabilities	(1,308,220)	-	(217,024)	-
12a. Monetary other liabilities	-	-	-	-
12b. Non-monetary other liabilities	(643)	-	(107)	-
13. Current liabilities (10+11+12)	(2,853,216)	(1,088)	(472,375)	(2)
14. Trade payables	-	-	-	-
15. Financial liabilities	(1,853,967)	-	(307,559)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(1,853,967)	-	(307,559)	-
18. Total liabilities (13+17)	(4,707,183)	(1,088)	(779,934)	(2)
19. Net asset / (liability) position of off- balance sheet derivative instruments (19a-19b)	-	-	-	-
19a. Total hedged asset amount	-	-	-	-
19b. Total hedged liability amount	-	-	-	-
20. Net foreign currency asset/(liability) position (9+18+19)	(2,342,485)	(993)	(387,730)	(2)
21. Net foreign currency asset/(liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(2,538,346)	(993)	(420,222)	(2)
22. Total fair value of financial instruments used for foreign currency hedging	-	-	-	-
23. Export	14,517,284	-	2,585,665	-
24. Import	8,283,269	5,207	1,493,744	132

(*) The Groups exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in EUR are undertaken by Fiat. Accordingly, net foreign currency exposure of the Group excluding such borrowings as of 31 December 2018 is TL 80,739 of foreign currency liability position.

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Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

2017	TL equivalent (functional currency)	USD	EUR	Other
1. Trade receivables	448,269	170	99,131	-
2a. Monetary financial assets (including cash, bank accounts)	1,848,749	148	409,299	-
2b. Non-monetary financial assets	171,547	-	37,991	-
3. Other	18,251	-	4,042	-
4. Current assets (1+2+3)	2,486,816	318	550,463	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	56,679	-	12,552	-
7. Other	39,153	106	8,582	-
8. Non-current assets (5+6+7)	95,832	106	21,134	-
9. Total assets (4+8)	2,582,648	424	571,597	-
10. Trade payables	(2,111,041)	(1,505)	(466,224)	(26)
11. Financial liabilities	(1,318,959)	-	(292,096)	-
12a. Monetary other liabilities	-	-	-	-
12b. Non-monetary other liabilities	(3,145)	-	(698)	-
13. Current liabilities (10+11+12)	(3,433,145)	(1,505)	(759,018)	(26)
14. Trade payables	-	-	-	-
15. Financial liabilities	(1,967,316)	(10,000)	(427,327)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(1,967,316)	(10,000)	(427,327)	-
18. Total liabilities (13+17)	(5,400,461)	(11,505)	(1,186,345)	(26)
19. Net asset / (liability) position of off- balance sheet derivative instruments (19a-19b)	37,719	10,000	-	-
19a. Total hedged asset amount	37,719	10,000	-	-
19b. Total hedged liability amount	-	-	-	-
20. Net foreign currency asset/(liability) position (9+18+19)	(2,780,094)	(1,081)	(614,748)	(26)
21. Net foreign currency asset/(liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(3,082,047)	(11,187)	(673,175)	(26)
22. Total fair value of financial instruments used for foreign currency hedging	-	-	-	-
23. Export	11,947,746	-	2,909,059	-
24. Import	8,230,175	2,093	2,000,773	-

(*) The Groups exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in EUR are undertaken by Fiat. Accordingly, net foreign currency exposure of the Group excluding such borrowings as of 31 December 2017 is TL 65.992 of foreign currency liability position.

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Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The following table demonstrates the sensitivity to a possible change of 10% in the USD, EUR and other exchange rates in the Group's foreign currency denominated liabilities (excluding foreign currency denominated inventory and fixed asset purchase advances), with all other variables held constant, on the Group's income before tax as of 31 December 2018 and 2017:

Exchange rate sensitivity analysis table

	2018			
	Profit/loss Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Equity Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>				
1- USD net asset/liability	(522)	522	-	-
2- Amount hedged for USD risk (-)	-	-	-	-
3- USD net effect (1+2)	(522)	522	-	-
<i>In case 10% appreciation of EUR against TL:</i>				
4- EUR net asset/liability	(253,310)	253,310	-	-
5- Amount hedged for EUR risk (-)	278,330	(278,330)	-	-
6- EUR net effect (4+5)	25,020	(25,020)	-	-
<i>In case 10% appreciation of other exchange rates against TL</i>				
7- Other exchange rates net asset/liability	-	-	-	-
8- Amount hedged for other exchange rates risk (-)	-	-	-	-
9 Other exchange rates net effect (7+8)	-	-	-	-
Total (3+6+9)	24,498	(24,498)	-	-
	2017			
	Profit/loss Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Equity Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>				
1- USD net asset/liability	(5,015)	5,015	-	-
2- Amount hedged for USD risk (-)	-	-	-	-
3- USD net effect (1+2)	(5,015)	5,015	-	-
<i>In case 10% appreciation of EUR against TL:</i>				
4- EUR net asset/liability	(408,852)	408,852	-	-
5- Amount hedged for EUR risk (-)	325,692	(325,692)	-	-
6- EUR net effect (4+5)	(83,160)	83,160	-	-
<i>In case 10% appreciation of other exchange rates against TL</i>				
7- Other exchange rates net asset/liability	-	-	-	-
8- Amount hedged for other exchange rates risk (-)	-	-	-	-
9 Other exchange rates net effect (7+8)	-	-	-	-
Total (3+6+9)	(88,175)	88,175	-	-

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Notes to the consolidated financial statements

for the year ended 31 December 2018 (continued)

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

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk

Interest rate risk stems from the probability of an impact of rate changes on financial accounts, The Group is exposed to interest rate risk due to maturity mismatch or differences of the assets and liabilities that are re-priced or matured in a specific period, These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities,

As of 31 December 2018 and 2017, the effect of +/- 0.5% change in interest rates until the next reporting period on the interest sensitive financial instruments in the balance sheet has been calculated as follows:

	2018	2017
Change in interest rates (%)	0.50	0.50
Effect on net income before for taxes	(456)	(207)

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The risk is mitigated by matching the cash in and out flow volume supported by committed lending limits from qualified credit institutions.

The breakdown of financial assets and liabilities according to their maturities is disclosed considering from balance sheet date to due date period. Financial assets and liabilities that have no certain due dates are classified in over one year column.

2018

Expected maturities	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1 - 5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	5,074,300	5,162,003	57,987	2,303,830	2,800,186	-
Trade payables	3,293,983	3,339,912	2,940,171	399,741	-	-
Bonds	357,752	393,684	55,000	230,817	107,867	-
Employee benefit liabilities	100,188	100,188	100,188	-	-	-
Other payables	16,060	16,060	16,060	-	-	-
	8,842,283	9,011,847	3,169,406	2,934,388	2,908,053	-

Expected maturities (or maturities per agreement)	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1 - 5 years (III)	Over 5 years (IV)
Derivative financial assets (net)	17,055	2,436,553	-	-	2,436,553	-
Derivative cash inflows						
Derivative cash outflows	17,055	2,436,553	-	-	2,436,553	-
	17,055	2,436,553	-	-	2,436,553	-

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Notes to the consolidated financial statements
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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

2017

Expected maturities	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1 - 5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	5,351,713	5,394,792	691,352	1,383,247	3,320,193	-
Trade payables	3,865,606	3,925,259	3,066,687	858,572	-	-
Bonds	459,198	523,639	31,860	276,782	214,997	-
Employee benefit liabilities	97,451	97,451	97,451	-	-	-
Other payables	25,561	25,561	25,561	-	-	-
	9,799,529	9,966,702	3,912,911	2,518,601	3,535,190	-

Expected maturities (or maturities per agreement)	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1 - 5 years (III)	Over 5 years (IV)
Derivative financial assets (net)	5,650	2,345,029	-	-	2,345,029	-
Derivative cash inflows	5,650	2,345,029	-	-	2,345,029	-
Derivative cash outflows	-	-	-	-	-	-
	5,650	2,345,029	-	-	2,345,029	-

Capital management policy

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes amendments to it, in light of changes in economic conditions.

The Group has the power to organize the dividend payments in order to regulate and keep the capital structure. There is no change in policy, target or processes of the Group as of 31 December 2018.

Consolidated net financial debt/total equity ratio as of 31 December 2018 and 2017 is as follows;

	31 December 2018	31 December 2017
Total borrowing	5,432,052	5,810,911
Cash and cash equivalent	(1,981,012)	(2,625,681)
Net financial debt	3,451,040	3,185,230
Equity	3,706,555	3,583,037
Net financial debt/total equity multiplier	%93	%89

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for the year ended 31 December 2018 (continued)

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NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE EXPLANATIONS AND DISCLOSURES WITHIN THE FRAMEWORK OF HEDGE ACCOUNTING)

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies, however, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Financial assets monetary assets for which the fair value approximates carrying value, balances denominated in foreign currencies are translated at year-end exchange rates. The fair values of financial assets (except short-term consumer financing loans) carried at cost are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The fair values are calculated by discounting the future cash flows of consumer financing loans with the current interest rate which is monthly 18,46% (31 December 2017: 10,08%).

	Carrying value	2018		2017	
		Fair value	Carrying value	Fair value	
Consumer financing loans	2,293,129	1,965,935	2,536,117	2,304,567	

Financial liabilities are monetary liabilities for which fair value approximates carrying value; balances denominated in foreign currencies are translated at the year-end exchange rates. Trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Management considers an effective cash flow hedge relationship between foreign currency originated long term loans and the realized and forecasted sales (items subject to be hedged) of light commercial vehicles (Egea, Doblo, New Doblo and Mini Cargo (MCV)). Effectiveness of hedge relationship has been determined by the agreements made between the Company and Fiat. It is vastly probable to cover long term loan liabilities by the planned sales of MCV to Fiat and PSA starting from 2008 until December 2017. Furthermore, according to the agreement made between Fiat and the Company, long term loan liabilities will be covered through a portion of sales of New Doblo to Fiat starting from 2009 until December 2018 and sales of Egea starting from 2017 until December 2023. Additionally, the carrying amount of long - term loan liabilities for Doblo had been covered by sales to Fiat until the beginning of 2009.

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**NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE EXPLANATIONS AND DISCLOSURES
WITHIN THE FRAMEWORK OF HEDGE ACCOUNTING) (Continued)**

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

2018

	Level 1	Level 2	Level 3
Investment property	-	60,500	-
Total assets	-	60,500	-
Derivatives held for trading	-	17,055	-
Total Liabilities	-	17,055	-

2017

	Level 1	Level 2	Level 3
Investment property	-	31,175	-
Derivatives held for trading	-	5,650	-
Total assets	-	36,825	-

As of 31 December 2018, the Group has not made any transfers between second level and first level, and also between third level and other levels.

NOTE 30 - SUBSEQUENT EVENTS

None.