



TOFAŞ

TÜRK OTOMOBİL FABRİKASI A.Ş.

Tofaş 2019 Annual Report

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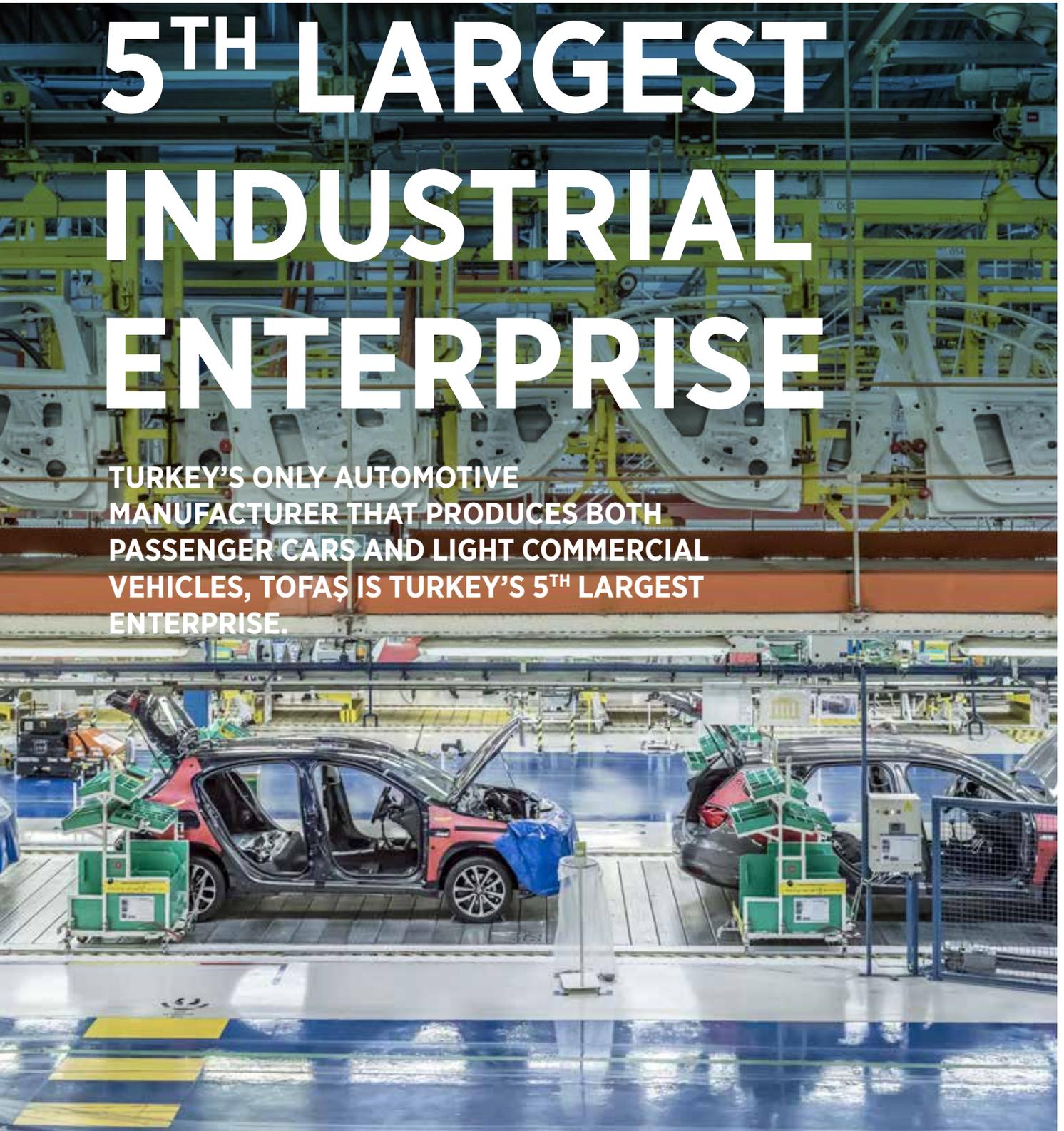
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TURKEY'S 5TH LARGEST INDUSTRIAL ENTERPRISE

TURKEY'S ONLY AUTOMOTIVE MANUFACTURER THAT PRODUCES BOTH PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES, TOFAŞ IS TURKEY'S 5TH LARGEST ENTERPRISE.

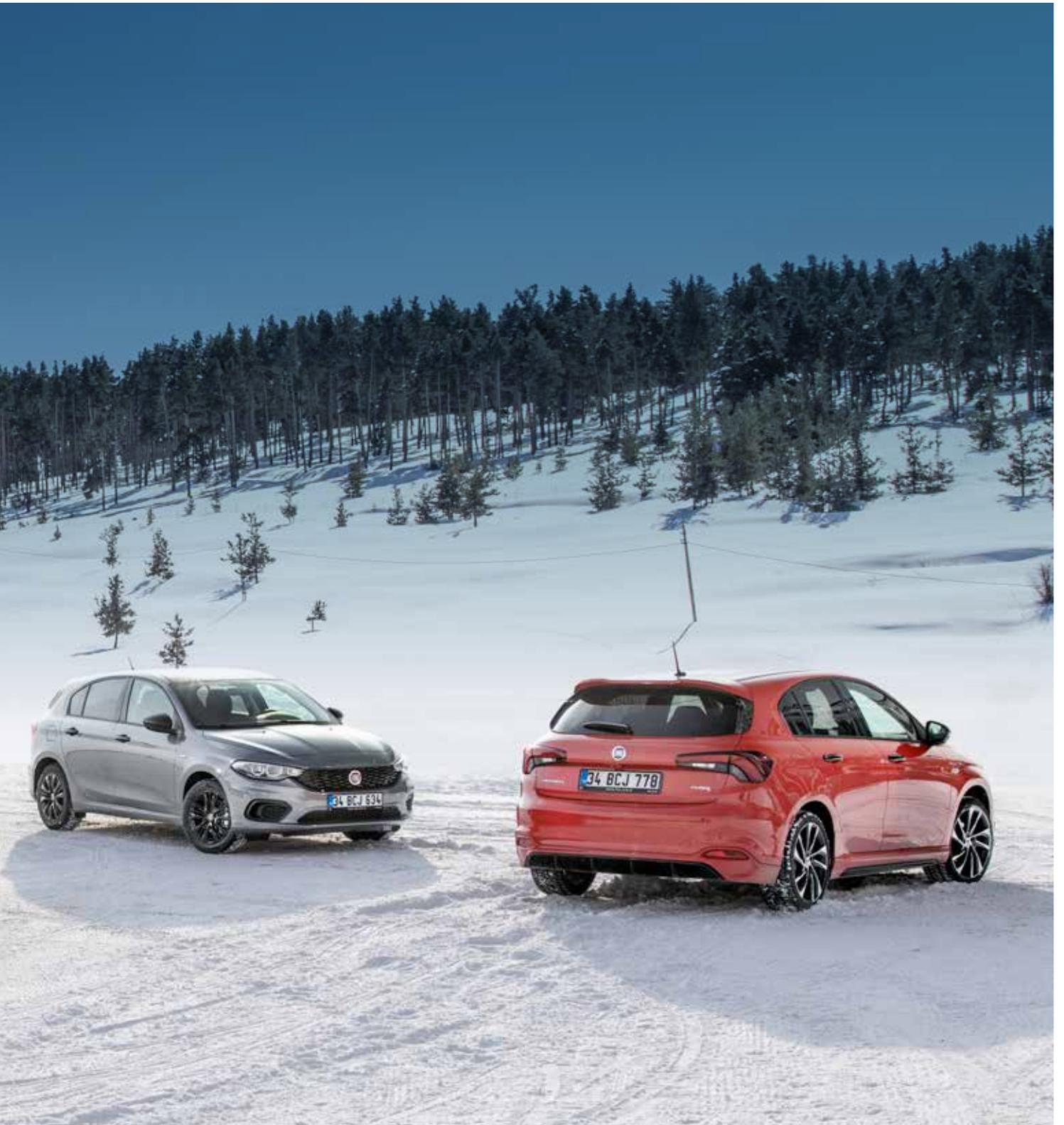


AUTOMOTIVES

MARKET LEADER

**HAVING INCREASED ITS MARKET SHARE
IN 2019, TOFAŞ IS NOW THE LEADER OF
THE TURKISH AUTOMOTIVES MARKET.**





ABOUT TOFAŞ

Turkey’s fifth largest industrial enterprise and the pioneer of the Turkish automotives industry, Tofaş is the company with the highest score among all the automobile factories within the scope of the “World Class Production” (WCM) methodology applied in the FCA Group’s 400 factories worldwide.



TOFAŞ IS THE ONLY AUTOMOTIVE MANUFACTURER IN TURKEY THAT PRODUCES BOTH PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES.

Founded in 1968, Tofaş is the only company in Turkey that manufactures both passenger cars and light commercial vehicles.

Tofaş is a Koç Holding and Fiat Chrysler Automobiles (FCA) partnership in which each controls an equal stake. With 24.3% of its capital publicly-traded, Tofaş’s shares are included in both the Borsa İstanbul BIST 30 and the BIST 100 indexes as well as in that exchange’s Corporate Governance Index and Sustainability indexes.

THE HIGHEST LEVEL IN WORLD CLASS MANUFACTURING

With an annual production capacity of 450 thousand vehicles and with nearly 7 thousand employees, Tofaş is Turkey’s fifth biggest industrial enterprise. Headquartered in İstanbul, Tofaş conducts its manufacturing operations at its Bursa plant, which occupies about a million m² of grounds and has 350 thousand m² of enclosed space.

Tofaş is foremost among Fiat Chrysler Automobiles’ strategically important production centers. Within the scope of the “World Class Production” (WCM) methodology applied in the FCA Group’s 400 factories worldwide, Tofaş is the company with the highest score among all automobile factories. The company is also one of the group’s two biggest R&D centers in Europe.

Tofaş’s plant produces Fiat Doblò and Fiorinos as well as the Fiat Egea family’s sedan, hatchback, and station wagon models. Marketed under different marque and model names in different parts of the world, Tofaş’s Egea line is sold as “Fiat Tipo” in Europe and as “Dodge Neon” in Mexico. Developed and manufactured at Tofaş, the Doblò is also exported to the United States where it is sold under the ProMaster City name. Tofaş is also a distributor, handling the domestic sales of six marques (Fiat, Fiat Professional, Alfa Romeo, Jeep, Maserati, Ferrari) in Turkey.

OUR VISION

Towards one million vehicles per annum...
To be a leading automotive company that shapes customer expectations and is a source of pride.

OUR MISSION

To improve people's quality of life by providing them with the products and services that best suit society's need for mobility.

ABOUT THE KOÇ GROUP AND FCA



THE KOÇ GROUP

With roots that reach back to 1926, the Koç Group is one of Turkey's biggest corporate groups. Ranking 217th in the Fortune 500 list of the world's biggest companies, Koç Holding commands leading positions and strong competitive advantages in sectors with long-term growth potential such as energy, automotives, durable consumer goods, and financial services.



FIAT CHRYSLER AUTOMOBILES

The result of a 2009 merger between Italy's Fiat (1899) and America's Chrysler Motors (1925), Fiat Chrysler Automobiles (FCA) is the world's seventh biggest automotives manufacturer. With 102 production facilities and 46 R&D centers located all over the world, FCA's products are sold through a network of dealerships and representatives with a presence in more than 135 countries. In late 2019, FCA signed a merger agreement with the PSA Group in which each side controls a 50% stake.

KEY FINANCIAL AND OPERATIONAL HIGHLIGHTS

In 2019 Tofaş further strengthened its automotive industry position with TL 18.9 billion in sales revenues and an 16.4% domestic market share as it rose to the position of market leader as measured by total sales.

OPERATIONAL HIGHLIGHTS	2018	2019
Export Sales (TL thousand)	14,455,023	13,301,313
Domestic Sales (TL thousand)	3,934,701	5,355,308
Other Income from Operational Activities (TL thousand)	213,607	240,293
Cumulative Production Volume (units)	301,750	264,197
Sales (units)	311,499	271,319

FINANCIAL HIGHLIGHTS (TL THOUSAND)	2018	2019
Total Assets	13,001,799	12,809,287
Shareholders' Equity	3,706,555	4,329,209
Sales Revenues	18,603,331	18,896,914
EBITDA	2,532,578	2,479,757
Profit Before Tax	1,290,894	1,456,555
Net Profit	1,330,423	1,481,639

264,197

Tofaş produced 264,197 vehicles in 2019.

271,319

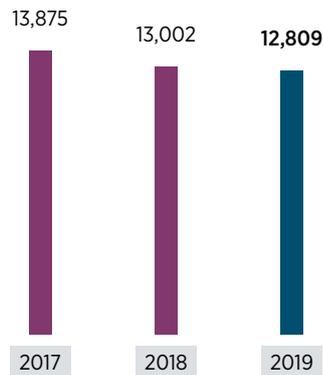
Tofaş sold 271,319 vehicles in 2019.

TL 1.5 billion

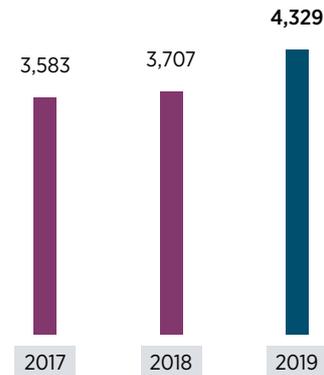
In 2019 Tofaş recorded TL 18.6 billion in sales revenues and a net profit of TL 1.5 billion.

71.6%

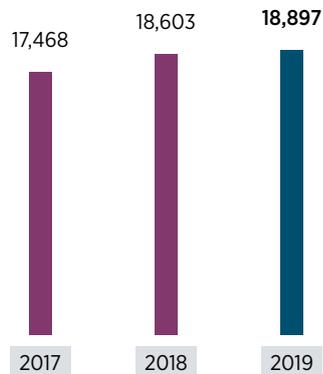
International sales accounted for a 71.6% share of total sales in 2019.

TOTAL ASSETS (TL MILLION)**TL 12.8 billion**

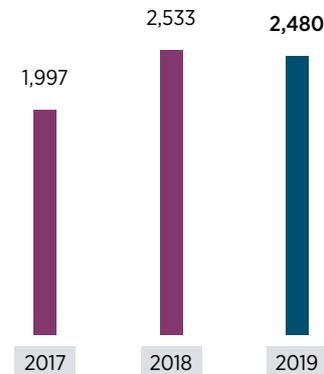
In 2019 total assets amounted TL 12,809 million.

SHAREHOLDERS' EQUITY (TL MILLION)**+16.8%**

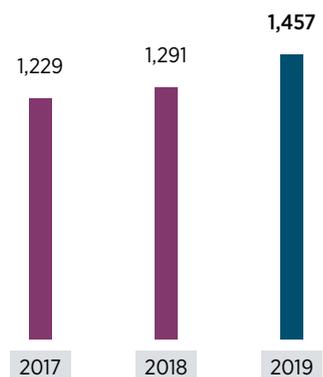
In 2019 shareholders' equity reached TL 4,329 million with an increase of 16.8%.

SALES REVENUES (TL MILLION)**TL 18.9 billion**

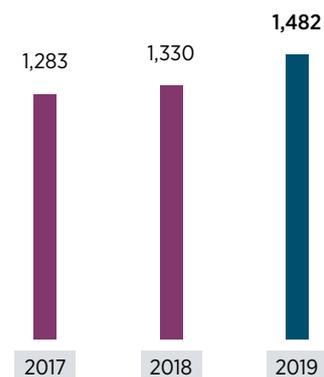
In 2019 sales revenues rose by 1.9% and reached TL 18,897 million.

EBITDA (TL MILLION)**TL 2.5 billion**

At year-end 2019 Tofaş's EBITDA was TL 2,480 million.

PROFIT BEFORE TAX (TL MILLION)**+12.9%**

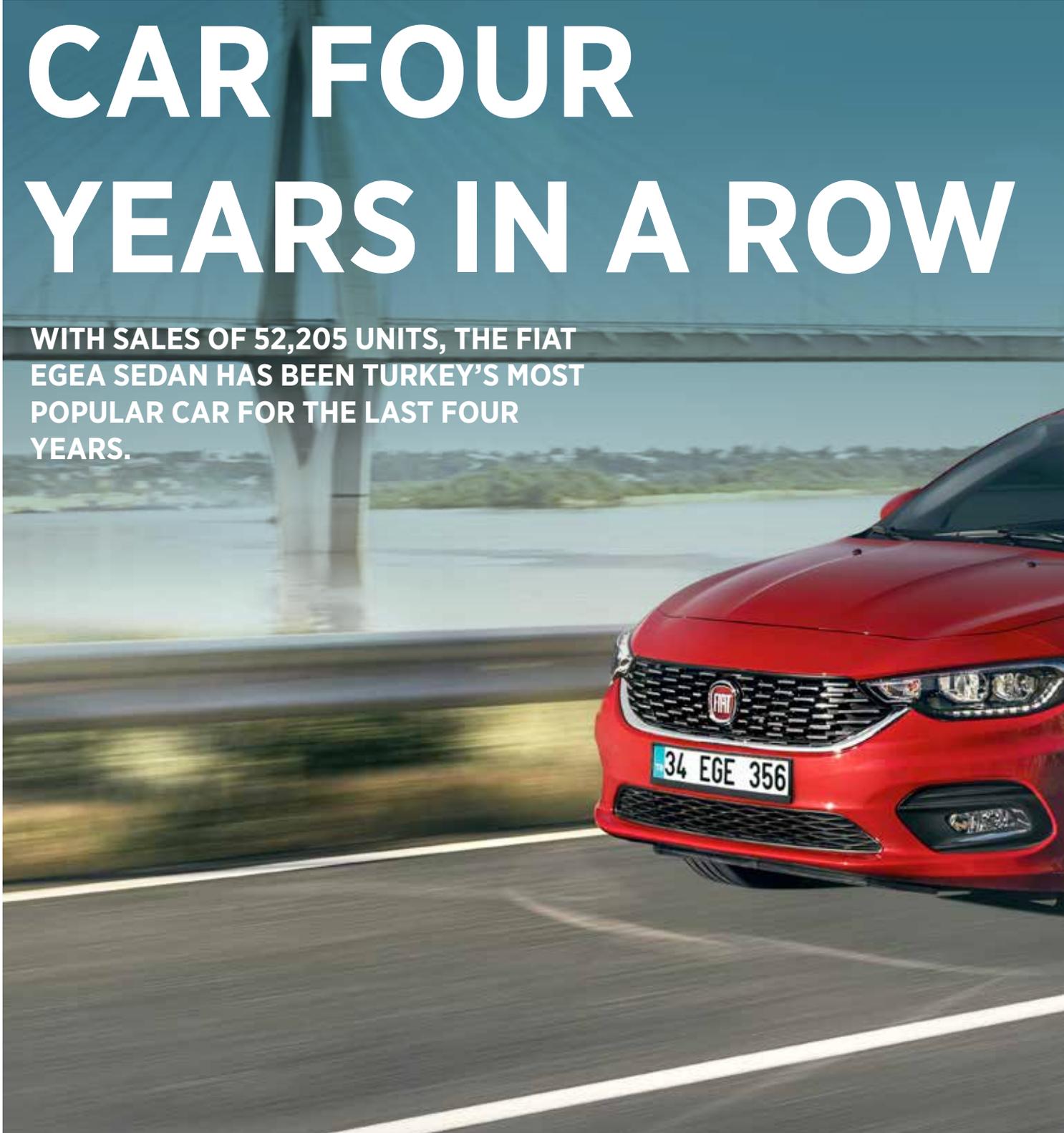
In 2019 profit before tax increased by 12.9% to TL 1,457 million in value.

NET PROFIT (TL MILLION)**+11.4%**

Net profit increased by 11.4% reaching TL 1,482 million in 2019.

BEST-SELLING CAR FOUR YEARS IN A ROW

WITH SALES OF 52,205 UNITS, THE FIAT EGEA SEDAN HAS BEEN TURKEY'S MOST POPULAR CAR FOR THE LAST FOUR YEARS.





AGENDA OF THE ORDINARY GENERAL ASSEMBLY MEETING

AGENDA OF 52nd ORDINARY GENERAL ASSEMBLY MEETING OF TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ TO BE HELD ON 18 MARCH 2020

1. Opening and election of Meeting Chairmanship,
2. Reading, discussion and approval of 2019 Activity Report prepared by the Company's Board of Directors,
3. Reading of Independent Audit Report Summary for 2019 accounting period,
4. Reading, discussion and approval of 2019 Financial Statements,
5. Acquittal of each Board Member for 2019 activities of the Company,
6. Approval, approval with amendment or rejection of the Board's proposal on appropriation of 2019 profits and the date of appropriation created as per the Company's profit distribution policy,
7. Determination of the number and office term of the Members of the Board of Directors, appointment of the members of the Board of Directors, appointment of the independent members of the Board of Directors,
8. Informing the Shareholders on and approval of "Remuneration Policy" for Board Members and Top-Level Managers and the payments made within the frame of such policy as required by Corporate Governance Principles,
9. Determination of annual gross remunerations of Board Members,
10. Approval of selection of Independent Audit Organization by the Board of Directors as per the Turkish Commercial Code and Capital Markets Board regulations,
11. Informing the Shareholders on donations made by the Company in 2019 and setting an upper limit for donations in 2020,
12. Informing the Shareholders on assurances, pledges, securities and indemnities supplied by the Company and its affiliates in favor of third parties and the profits and benefits gained in 2019 as per the Capital Markets Board regulations,
13. Authorization of the majority shareholders, members of the Board of Directors, top level managers and their spouses and up-to-second-degree relatives within the frame of Turkish Commercial Code Articles 395 and 396 and informing the shareholders on such business and transactions of this nature in 2019 as per the Capital Markets Board Corporate Governance Communiqué,
14. Wishes and opinions.

(CONVENIENCE TRANSLATION OF A REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT

Güney Bağımsız Denetim ve SMMM A.Ş.
Maslak Mahallesi Eski Büyükdere Cad.
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Daire: 54-57-59
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İstanbul - Türkiye

Tel: +90 212 315 3000
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ey.com
Ticaret Sicil No: 479920
Mersis no: 0-4350-3032-6000017

To the Shareholders of Tofaş Türk Otomobil Fabrikası A.Ş.

1) Opinion

We have audited the annual report of Tofaş Türk Otomobil Fabrikası A.Ş. ("the Company") and its subsidiaries ("the Group") for the period of January 1 - December 31, 2019.

In our opinion, the consolidated financial information provided in the annual report of the Board of Directors and the discussions made by the Board of Directors on the situation of the Group are presented fairly and consistent, in all material respects, with the audited full set consolidated financial statements and the information we obtained during the audit.

2) 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) 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 Annual Report 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.

3) Our Auditor's Opinion on the Full Set Consolidated Financial Statements

We have expressed an unqualified opinion in our auditor's report dated February 4, 2020 on the full set consolidated financial statements of the Group for the period of January 1 - December 31, 2019.

4) The Responsibility of the Board of Directors on the Annual Report

In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Group is responsible for the following items:

- Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly.
- Preparation and fair presentation of the annual report; reflecting the operations of the Group for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the consolidated financial statements. The development of the Group and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report.

(Convenience translation of a report originally issued in Turkish)

c) The annual report also includes the matters below:

- Subsequent events occurred after the end of the fiscal year which have significance,
- The research and development activities of the Group,
- Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits.

When preparing the annual report, the board of directors takes into account the secondary legislative arrangements published by the Ministry of Trade and related institutions.

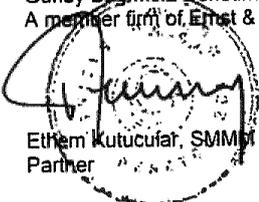
5) Auditor's Responsibilities for the Audit of the Annual Report

Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the Communiqué, on whether the consolidated financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Group's audited consolidated financial statements and to prepare a report including our opinion.

The independent audit we have performed is conducted in accordance with InAS and the standards on auditing as issued by the Capital Markets Board of Turkey. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the consolidated financial information provided in the annual report and the discussions of the Board of Directors are free from material misstatement and consistent with the consolidated financial statements.

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



February 24, 2020
İstanbul, Türkiye

CHAIRMAN'S ASSESSMENT



Tofaş will continue to marshal its experience, its production might, and its technology- and R&D-focused vision in order to create even more added value and to make itself even more competitive.

Ömer M. Koç
Chairman of the Board of Directors

Esteemed shareholders,

2019 was a year in which the impact of political developments on macroeconomic balances was felt more strongly than ever. After having made such rapid progress for such a long time, the process of globalization appeared to be giving way to one of increasingly more protectionist trade policy. With the addition of uncertainties created by Brexit not just for EU economies but for the global economy as a whole as well as of political tensions in different parts of the world to the impact of US-China trade wars, worries about global growth increased last year.

In such a context, developed countries' central banks found it necessary to amend their tight-money policy stances and to reverse their decisions to start raising interest rates in favor of more expansionist monetary policies. Having recourse to interest rate cuts on three separate occasions, the US Federal Reserve Bank lowered its policy rate to the 1.50-1.75% range. Concluding that Europe's economic recovery was not proceeding as desired, the European Central Bank also cut its rates while concurrently launching a comprehensive support package. With developed countries' interest rates running so low, there was a relative quickening of capital inflows into developing countries, where the growing global interest in their assets was observed to invigorate their equity markets.

Lower-than-expected growth performances among Asia's economies also impacted adversely on global trade and growth. Having grown by an average annual rate of nearly 10% for four decades, China now singlehandedly accounts for some 16% of the world economy and is one of its biggest players today. That said, Chinese economic growth has also

been losing steam steadily since 2010 and, weighing in at only 6% (admittedly in part due to the effects of its trade spat with the US), its 2019 growth performance was the lowest in thirty years.

In early 2020, US-China trade talks made progress and a first-stage deal was reached while, even if only for the immediate future, the uncertainties of the Brexit process appear to have gone away. We regard both developments as beneficial for the global economy. However owing to their potential global-scale political and economic ramifications, the US elections that will be taking place this November will be the most important item on the agenda that we shall have to keep our eyes on between now and then.

TURKEY'S ECONOMY RESUMED GROWING THE THIRD QUARTER.

Unfolding concurrently with a process of rebalancing the national economy, perceptions of the risks posed by internal and international external developments made 2019 a tough year for markets to deal with.

In the immediate wake of the 2018 surge in exchange rate volatilities, the Turkish economy contracted for three consecutive quarters in a process that ended only when a 0.9% rate of growth was registered in Q3 2019. Even though inflation failed to return to the single-digit range, it was constrained by low global-market interest rates and by weak domestic demand and, at 11.84%, it was at its lowest level in three years.

In a series of steps during the first half of the year that was supported by the optics of inflation in decline, Turkey's central bank cut back its policy rate, reducing it from 24% to 12%.

Not only did this give markets something of a boost, it also impacted favorably on companies' cashflows by lowering their borrowing costs.

Turkey's export performance was favorable and strong in 2019 while the improvement in the country's current account deficit gradually continued. However the curtailing effects of a faltering global economy on our exports became unmistakable by the last quarter of the year. Half of all of Turkey's exports are destined for the European Union, where political contingencies are such as to make it important to eliminate such structural imbalances.

Combined with a relative improvement in perceptions of Turkey as a source of country risk, global markets' low interest rates, substantial liquidity, and appetite for risk impacted favorably on the country's markets and nourished expectations of satisfactory economic performance.

ALTHOUGH THE TURKISH AUTOMOTIVES INDUSTRY'S MARKET CONTRACTED, ITS EXPORT PERFORMANCE REMAINED ON COURSE.

Beset as it was by unsteady macroeconomic conditions and domestic consumption in decline, the Turkish automotives industry's total output contracted by 6% and weighed in at 1,461 thousand units in 2019. Although the overall market for automobiles and light commercial vehicles shrank by 23% with 479,060 units being sold, the year-on decline in automobile sales (which account for 81% of the total market) was 20% while that in the case of light commercial vehicles was 32%.

The Turkish automotives industry's total exports were worth USD 31 billion in value in 2019. That figure corresponds to 17% of the country's total export trade and is second historically only to the record-breaking performance which the sector achieved in 2018.

IN A CHALLENGING YEAR, TOFAŞ ACHIEVED SUCCESSFUL RESULTS.

In a year fraught with challenges on the economic front, Tofaş performed successfully. The 264 thousand vehicles which the company produced in 2019 made up 18% of the country's total automotives industry output and 15% of its automotives industry exports. The Fiat brand once again completed the year as the overall market leader. The Fiat Egea, which Tofaş itself developed and continues to produce, was the country's most popular car for the fourth year in a row and further strengthened its position among consumers.

Last year the Tofaş Board of Directors approved a USD 225 million investment to give the company's Egea model family a new facelift. This investment calls for the extension of the Egea project, for which Tofaş is undertaking major product development responsibilities, until 2024.

Striving constantly to expand its manufacturing competencies, Tofaş raised its World Class Manufacturing score to 81/100, thereby surpassing all Fiat Chrysler and other automotives plants where WCM methodology is being employed.

Another important development for Tofaş that took place last year was a decision, announced in December, of a merger between Fiat Chrysler Automobiles and French automotives manufacturer Groupe PSA. The synergies that this merger will give rise to will not only increase productivity but will also create significant advantages in technology and product development.

WE LOOK TO THE FUTURE WITH HOPE.

Notwithstanding the realities of the tough conditions that still prevail, in 2020 we will strive to repeat the success that we achieved in 2019's shrinking market, to keep our financial structure on an even keel by focusing on balance-sheet strength and cash-management opportunities, and to maintain our solid performance through our production and sales competencies.

Inherent in the visionary attitude of the Koç Group is an ability to manage today's risks while also spotting opportunities that lie within the changing dynamics of the present in order to be ready for the future. Short-term volatilities never prevent us from focusing on long-term objectives. Despite the economic and political uncertainties evolving both at home and abroad, we have faith in the future of our country and our industry and with that confidence, we are determined to continue with our automotives industry investments and to defend our leading position in our sector.

As the only automotives company in Turkey that makes both automobiles and light commercial vehicles, Tofaş will continue to marshal its experience, its production might, and its technology- and R&D-focused vision in order to create even more added value and to make itself even more competitive.

In closing I take this opportunity to thank all of my colleagues for the dedication, confidence, and superior efforts that underlie our success while also extending my sincere thanks to all of our other stakeholders for their trust and support.

Very truly yours,



Ömer M. Koç
Chairman of the Board of Directors

BOARD OF DIRECTORS



ÖMER M. KOÇ
Chairman

He received his B.A. degree from Columbia University in 1985. He worked at Kofisa Trading for one year. He completed his MBA at Columbia University in 1989. After working at Ramerica International Inc., he joined Koç Group in 1990. He held various senior positions at Koç Holding including Finance Coordinator, Vice President and President of Energy Group. He became member of Board of Directors in 2004 and Vice Chairman in May 2008. In February 2016, he was appointed as the Chairman of Koç Holding. Ömer M. Koç has been serving as the Chairman of Tofaş since April 2016.



PIETRO GORLIER
Vice Chairman of the Board of Directors

Pietro Gorlier graduated from University of Turin with degrees in Economics and Business. Gorlier joined the Fiat Group as a Market Analyst in Iveco in 1989 and assumed various responsibilities in Logistics, After-Sales and Customer Services. Starting to work in Network Development at Fiat Group Automobiles in 2006, Gorlier later served at Fiat Group Automobiles S.p.A. and CNH Global N.V within Chrysler Group. Gorlier was appointed as the President and Chairman of the Executive Board of Chrysler Group LLC-MOPAR Brand Service, Parts and Customer Services in 2009 and as the Chief Operating Officer (COO) in 2015. Pietro Gorlier was appointed as the COO for Europe, Middle East and Africa Region in October 2018. He is a member of the Group Executive Council (GEC) and Global Head of Parts & Service (MOPAR) since 2011.



CENGİZ EROLDU
Board Member - CEO

Cengiz Eroldu graduated from the Business Administration Faculty of Istanbul University and completed the MBA program at LUISS University (Italy). He began his career as an Audit Specialist at Koç Holding in 1989. He was appointed to the position of Assistant Accounting and Industrial Governance Manager for Tofaş in 1995, working in the Accounting and Industrial Governance Department and the Budget and Governance Department from 2001 to 2008, and in the Finance Department between 2008 until 2015. Since 2015, he has been serving as Member of the Tofaş Board of Directors and CEO.



TEMEL KAMİL ATAY
Board Member

A graduate of Mechanical Engineering from Istanbul Technical University, he holds an MBA degree from Wayne State University. He joined Koç Group in 1966 and later served as the General Manager of Otoyl Sanayi A.Ş. and Tofaş Türk Otomobil Fabrikası A.Ş. After working in various senior management posts at Koç Holding, he served as the CEO between 2000 and 2001. Temel Kamil Atay was a member of Koç Holding Board of Directors between 1996-2019.



LEVENT ÇAKIROĞLU
Board Member

Levent Çakıroğlu graduated from Ankara University, Faculty of Political Sciences, Department of Business Administration. He earned a Master's degree at the University of Illinois. Mr. Çakıroğlu began his professional career as an Auditor at the Ministry of Finance in 1988. From 1997 to 1998, he taught as a part-time instructor at Bilkent University, and served as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance. He joined Koç Holding in 1998 as Financial Coordinator. Subsequently, he served as the General Manager of Koçtaş (2002-2007), General Manager of Migros (2007-2008), General Manager of Arçelik (2008-2015), and President of the Consumer Durables Group at Koç Holding (2010-2015). In February 2015, Mr. Çakıroğlu was appointed Deputy Chief Executive Officer of Koç Holding, and he has been the Chief Executive Officer of Koç Holding since April 2015. He has been a member of Koç Holding Board of Directors since 2016.



DAVIDE MELE
Member of the Board of Directors

Davide Mele graduated from Polytechnic University of Turin with a degree in Engineering. Mele joined the Fiat Group as a Senior Auditor at Fiat Revit S.r.l in 2001 and later assumed various posts as the Financial Controller responsible for financial management of all aspects of the Fiat Auto-Ford partnership agreement as part of the Audit Department and as Project Controller. In 2013, he was appointed as the Head of Financial Planning and Analysis at Fiat S.p.A. and assumed responsibilities of financial planning, budgeting and corporate level reporting and analysis for both Chrysler LLC and Fiat S.p.A. Mele has been serving in various significant roles in the Group, including his appointment as the FCA Group Head of Audit of Passenger Cars in 2016 and Latin America Chief Operating Officer (COO) in 2017. Davide Mele has been assigned as Deputy Chief Operating Officer for the EMEA Region in April 2018.



İSMAİL CENK ÇİMEN
Board Member

İsmail Cenk Çimen holds a degree in Industrial Engineering from Istanbul Technical University; in addition, he completed Executive Development Programs at Stanford University (USA) and University of California - Los Angeles (USA). He joined Koç Group in 1991 as a Management Trainee at Nasoto. He assumed Sales Coordinator, Regional Manager and Import Manager responsibilities at Otosan Pazarlama between 1993 and 1996. He served as Fleet Sales Manager at Ford Otosan from 1996 to 1998 and became the General Manager of Otokoç Ankara in 1998. In 2001, he was appointed General Manager of the companies merged under Otokoç. In 2005, his responsibility was extended to include the General Manager role at Birmot A.Ş., while also assuming responsibility for Avis car rental. He has served as the President of Automotive Group at Koç Holding since June 2009.

BOARD OF DIRECTORS



GIORGIO FOSSATI
Board Member

Giorgio Fossati holds a degree in law from the University of Turin (Italy). He started his professional career in the Legal Department at Iveco S.p.A. in 1988 and joined Fiat S.p.A. in 1999 as a member of the legal staff. He became General Counsel of FCA Italy S.p.A. in 2002. He has served as the General Counsel for FCA EMEA Region and as Corporate General Counsel for Fiat Chrysler Automobiles N.V. since 2011. Mr. Fossati is a member of the Boards of Directors of FCA US LLC, FCA Italy S.p.A., Teksid S.p.A., Fiat Chrysler Finance S.p.A., Fidis S.p.A., FCA Partecipazioni S.p.A., Fiat Chrysler Risk Management S.p.A. and Abarth & C. S.p.A. In addition, he is a member of the Executive Committee of FCA Poland S.A.



SERGIO DUCA
Independent Board Member

Mr. Duca graduated with honors in Economics and Business from Bocconi University in Milan. As a certified chartered accountant and auditor, he acquired broad experience through the PricewaterhouseCoopers network as the external auditor of a number of significant Italian companies. Mr. Duca has previously served as Chairman of the Board of Directors of Orizzonte SGR S.p.A. from 2008 until 2016, Chairman of the Board of Statutory Auditors of Exor S.p.A. until May 2015, Chairman of the Board of Statutory Auditors of GTech until April 2015, Chairman of the Board of Statutory Auditors of Tosetti Value SIM and an Independent Director of Sella Gestione SGR until April 2010. Sergio Duca is the Chairman of the Board of Statutory Auditors of Enel S.p.A. since April 2010.



NESLIHAN TONBUL
Independent Board Member

Having graduated with a high degree from the Economics and Political Science department of Rutgers University in 1981, Neslihan Tonbul completed her post-graduate study on International Finances and Economic Development at The Fletcher School of Law and Diplomacy - Tufts University. Appointed to the senior executive positions at New York, London and Istanbul agencies of various international finance institutions (The Irving Trust Company, The Bank of New York and BNY Mellon) from 1983 to 2008, she was appointed as regional manager overseeing a region that includes the Middle East, Africa, Eastern Europe and Turkey. Serving as board member to the prominent Turkish holdings since 2008, Neslihan Tonbul is a board member of Tofaş, Petkim, Alarko Holding and Vakıfbank International. Gaining expertise in the Management of Family Companies by studying at the Harvard Business School with CFEG, Tonbul has been teaching "Management of Family Companies" at the Faculty of Economics and Administrative Sciences of Koç University since 2017.

BOARD OF DIRECTORS MEMBERS WHO HELD OFFICE DURING THE REPORTING PERIOD

BOARD OF DIRECTORS		TERM OF OFFICE	
Name	Position	From	Until
Ömer M. KOÇ	Chairman	15.03.2018	13.03.2020
Pietro GORLIER	Vice Chairman	02.11.2018	13.03.2020
Cengiz EROLDU	Member & CEO	15.03.2018	13.03.2020
Temel Kamil ATAY	Member	15.03.2018	13.03.2020
Levent ÇAKIROĞLU	Member	15.03.2018	13.03.2020
Davide MELE	Member	02.11.2018	13.03.2020
İsmail Cenk ÇİMEN	Member	15.03.2018	13.03.2020
Giorgio FOSSATI	Member	15.03.2018	13.03.2020
Sergio DUCA	Independent Member	15.03.2018	13.03.2020
Neslihan TONBUL	Independent Member	15.03.2018	13.03.2020

⁽¹⁾ Following the election date of the Board of Directors, terms of office have been taken into consideration.
(15 March 2018 - 15 March 2019 and 13 March 2019 - 13 March 2020)

DUTIES, AUTHORITIES AND LIMIT OF AUTHORITIES OF THE BOARD OF DIRECTORS

- Both the Chairman and Members of the Board of Directors shall be authorized with specified duties and authorizations defined in Article 11 of the Articles of Association and related articles of the Turkish Commercial Code.
- Furthermore, the regulation concerning Executive Board Decisions is available in the 10th article of the Articles of Association.
- The regulation concerning Auditing is contained in the 13th article of the Articles of Association.

DIVIDEND DISTRIBUTION POLICY

Our Company distributes dividends in accordance with the related provisions of Turkish Commercial Code, capital markets regulations, tax regulations, other related regulations and dividends distribution article of Articles of Association. Dividends are distributed with a policy which is balanced and consistent in terms of the interests of shareholders and the Company in accordance with Corporate Governance Principles.

As a basic principle and to the extent possible based on the applicable regulations and financial resources, net distributable profit within a certain period calculated based on the market expectations, long-term company strategy, investment and financing policies, profitability and cash position and in accordance with Capital Markets Regulations is distributed to the shareholders in the form of cash and/or bonus share provided that it can be covered from the legal reserves.

The intention is to complete dividends distribution in maximum one month after the General Assembly meeting and the date of dividends distribution is determined by the General Assembly. General Assembly or the Board of Directors, if authorized, can decide on distribution of dividends in installments in accordance with the Capital Markets Regulations.

As per the Articles of Association, Board of Directors can distribute dividends in advance provided that it is authorized by the General Assembly and acts in accordance with Capital Markets Regulations.

There is no privilege regarding distribution of dividends. Dividends are distributed equally regardless of the whole current shares or their dates of issuance and acquisition.

This is to inform our esteemed Shareholders.

2019 PROFIT DISTRIBUTION PROPOSAL

In accordance with the consolidated Balance Sheet and Income/Loss Statement that has been drawn up pursuant to the CMB Communiqué Serial:II-14.1 on Principles of Financial Reporting in the Capital Market and Communiqué Serial:II-19.1 on Dividends, our Company booked a consolidated net profit of TL 1,481,639,000 in 2019. The donations and charitable grants made to foundations and associations during the reporting period amounted to TL 6,707,127

It is hereby proposed that; Cash dividends in the total amount of TL 1,200,000,000.- corresponding to a rate of 240.00% (gross) be paid out of the net profit for the period to our Shareholders after deducting the legal liabilities in accordance with the provisions of the Turkish Commercial Code, Capital Market legislation, and the Company's Articles of Association and the Dividend Policy.

Resident corporate entities and non-resident corporate entities deriving dividends via a workplace or permanent representation in Turkey be paid out a cash dividend at a rate of 240.00% (gross) and in the amount of Kr 2.40 Gross=Net for each share with a nominal value of Kr 1,

Our other shareholders be paid out a cash dividend at the rate of 240.00% and in the amount of Kr 2.40 gross and Kr 2.04 net per share with a nominal value of Kr.1., and; The beginning date of dividend distribution be set as 25 March 2020.

We hereby propose that the dividend distribution and timing be resolved as proposed above.

2019 DIVIDEND DISTRIBUTION TABLE

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.		
2019 Dividend Distribution Proposal Table (TL)		
1. Paid-in/Issued Capital		500,000,000
2. Total Legal Reserves (According to Tax Book)		366,783,458
If there is dividend privilege in the Articles of Association, information regarding this privilege:		No
	According to CMB	According to Tax Book
3. Current Period Profit	1,456,555,000	1,214,622,956
4. Taxes Payable (-)	-25,084,000	12,177,831
5. Net Current Period Profit (=)	1,481,639,000	1,202,445,125
6. Losses in Previous Years (-)		
7. Primary Legal Reserves (-)		
8. NET DISTRIBUTABLE CURRENT PERIOD (=)	1,481,639,000	1,202,445,125
9. Donations Made during the Year (+)	6,707,127	
10. Donation-Added Net Distributable Current Period Profit on which First Dividend is Calculated	1,488,346,127	
First Dividend for Shareholders		
11. - Cash	1,200,000,000	25,000,000
- Stock		
- Total	1,200,000,000	25,000,000
12. Dividend Distributed to Owners of Privileged Shares		
Other Dividend Distributed		
13. - To the Members of the Board of Directors,		
- To the Employees		
- To None Shareholders		
14. Dividend to Owners of Redeemed Shares		
15. Second Dividend for Shareholders		1,070,404,659
16. Secondary Legal Reserves	117,500,000	107,040,466
17. Statutory Reserves		
18. Special Reserves		
19. EXTRAORDINARY RESERVES	164,139,000	
Other Distributable Resources	0	104,595,341
- Retained Earnings		
20. - Extraordinary Reserves		
- Other distributable reserves in accordance with the Law and the Articles of Association		104,595,341
Legal Reserves From Other Distributable Resources	0	10,459,534
- Retained Earnings		
21. - Extraordinary Reserves		
- Other distributable reserves in accordance with the Law and the Articles of Association		10,459,534

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş. 2019 Dividend Rates Table					
SHARE GROUP	DIVIDEND AMOUNT		TOTAL DIVIDEND AMOUNT (TL)/ NET DISTRIBUTABLE CURRENT PERIOD PROFIT	DIVIDEND TO BE PAID FOR SHARE WITH PAR VALUE OF 1 TL	
	CASH (TL)	STOCK (TL)	RATE (%)	AMOUNT (TL)	RATE (%)
A (real person)	2,378,726		0.16	2.0400	204.00
A (legal entity)	451,473,155		30.47	2.4000	240.00
NET* D	386,130,908		26.06	2.0400	204.00
E	247,738,184		16.72	2.0400	204.00
TOTAL	1,087,720,973	0	73.41	0	0

⁽¹⁾ There is no privileged share group in profits

⁽²⁾ Dividend amounts to be distributed to A, D and E groups are shown as consolidated.

⁽³⁾ No withholding tax will be applied as Group A shares which correspond to 37.62% of the capital belong to full-fledged legal persons. And as Group A shares which correspond to 0.23% of the capital belong to full-fledged real persons, 15% withholding tax will be applied, ⁽⁴⁾ 15% withholding tax is applied by taking into account that all Group D shares belong to limited liability real persons.

⁽⁵⁾ 15% withholding tax is applied accepting that all Group E public shares belong to real persons.

REMUNERATION POLICY FOR TOP-LEVEL MANAGERS AND MEMBERS OF THE BOARD OF DIRECTORS

This policy document defines the remuneration system and practices for the members of the board of directors and top-level managers with administrative responsibilities as defined by CMB regulations.

Fixed wages payable to members of the board of directors are designated by the ordinary general assembly every year. Executive board members are paid in accordance with the policy applicable for top-level managers and detailed below.

Performance-based payments are not used for remuneration of independent members of the board of directors.

Members of the board of directors are paid based on the period from assignment to resignation. Expenses of the members of the board of directors related with the benefits they provide for the company (transportation, telephone, insurance, etc.) are covered by the company.

Remuneration for Top-Level Managers consists of fixed and performance based components.

Fixed wages of Top-Level Managers are determined in accordance with international standards and legal liabilities based on macroeconomic market data, wage policies applicable in the market, size of the company, long-term objectives and individual positions.

Bonuses payable to Top-Level Managers are based on bonus base, company performance and individual performance. The criteria are as follows:

Bonus Base: Bonus Base is updated every year and varies according to the positions of managers and volume of business. Bonus base is updated based on the top-management bonus policies applicable in the market.

Company Performance: Company performance is calculated every year by measuring the financial and operational (market share, exports, international operations, efficiency etc.) objectives of the company in terms of achievement at the end of the year. The basic principles while defining the company objectives are ensuring that achievements are sustainable and improvements are made as compared to the previous year.

Individual Performance: Definition of individual performance is based on company objectives as well as objectives related with employees, customers, processes, technology and long-term strategies. In measurement of individual performance, company performance and long-term sustainable improvement in non-financial area are significant principles.

In case of resignation of a top-level manager, a certain amount of bonus can be paid based on the term of assignment, term of assignment as a top-level manager, benefits provided, last target bonus before resignation, wages paid in the last year and bonus data.

Total amounts paid to Top-Level Managers and Members of the Board of Directors based on the principles listed above are submitted to the information and/or approval of the shareholders at the next general assembly meeting.

This is to inform our esteemed Shareholders.

6 MILLIONTH VEHICLE

IN 2019 THE SIX MILLIONTH VEHICLE ROLLED OFF TOFAŞ'S ASSEMBLY LINE WHILE AN IMPORTANT PRODUCTION MILESTONE WAS PASSED WITH THE TWO MILLIONTH FIAT DOBLÒ, A MODEL THAT PIONEERED ITS OWN SEGMENT OF THE COMMERCIAL VEHICLE MARKET.





CEO'S ASSESSMENT



Ranking amongst our country's leading industrial concerns with 264 thousand vehicle units produced and 194 thousand exported in 2019, Tofaş continued to contribute to the national economy last year.

Cengiz Eroldu
Board Member & CEO

Valued stakeholders,

In 2019 Tofaş strengthened its position in its sector, achieving impressive business results in both its manufacturing and domestic market operations despite increasingly tough market conditions owing both to global externalities and to the Turkish economy's rebalancing processes.

Ranking amongst our country's leading industrial concerns with 264 thousand vehicle units produced and 194 thousand exported in 2019, Tofaş continued to contribute to the national economy last year. Booking export revenues worth USD 2.3 billion and generating a foreign trade surplus of USD 919 million in 2019, Tofaş once again also demonstrated its commanding position in the Turkish automotive industry with domestic production accounting for 93% of its sales to its home market.

As the Turkish automobile and light commercial vehicle market representative of the Fiat, Fiat Professional, Alfa Romeo, Jeep, Ferrari, and Maserati brands, Tofaş's market share increased by 5.7 percentage points to 16.4% last year.

THE DOMESTIC MARKET LEADER

With 76,251 units sold and controlling a 15.9% share of all automobiles and light commercial vehicles sold, Fiat brand rose to the position of market leader in 2019. The Fiat Egea Sedan, the preferred automobile of consumers since 2016, retained its leading market position for the fourth year in a row thanks to its 2019 sales performance with 52,206 units being sold. Sales of all members of the Fiat Egea family in 2019 amounted to 55,432 units. In the light commercial vehicle market, Fiat Professional ranked second as of year-end. In the minivan class, which makes up a substantial part of the LCV market, Tofaş's Doblò and Fiorino models continued to lead the pack.

Alfa Romeo and Jeep sales remained steady in terms of volume and, given the diminished demand for imports, actually increased their market share.

Three new specially-designed versions of the Fiat Egea family's hatchback and station wagon models with sportive equipment options were put on sale in 2019. As a result of a facelift investment to be undertaken for the Egea family, the Egea project's termination date has been extended to 2024 and product-development work is currently in progress. Doblò, Egea, and Fiorino models have been brought into compliance with Euro 6d-TEMP emission standards and an LPG version has been added to the Fiorino line.

Last year the sixth millionth vehicle rolled off our plant's assembly line. An important production milestone was also passed with the two millionth Fiat Doblò, a model which pioneered its own segment of the light commercial vehicle market.

Tofaş, established on the basis of more than 50 years of cooperation between Koç Holding and Fiat Chrysler Automobiles (FCA), has witnessed another milestone in 2019. With the successful completion of negotiations between FCA and France's PSA Group, it has been decided to merge the two into a new entity in which each side will control a 50% stake. In the period ahead we will be seeing the results of this agreement which we think will have positive results.

Turning now to our company's financial performance in 2019, Tofaş's revenues increased by 1.6% year-on-year and reached TL 18.9 billion. In the same period, net profit rose by 11.4% year-on-year to TL 1.5 billion.

THE LEADER IN WORLD CLASS MANUFACTURING

Tofaş strives to constantly improve the quality of all product and service processes throughout its value-creation chain and to generate more competitive advantage for itself through global-scale manufacturing. It achieves this by understanding customer expectations through a customer-centered approach.

Having introduced World Class Manufacturing (WCM) methodology employed in FCA plants around the world, in its own plant in 2006, in 2013 Tofaş became one of the first three FCA operations to be awarded “Gold” status. Continuing to push its production standards to even higher levels since then, in 2019 the company’s WCM score rose from 77 to 81, thereby positioning Tofaş ahead of any other automotives plant in the world where WCM is being employed.

AN ENDURING PIONEER IN R&D AND TECHNOLOGY

Celebrating its 25th year in 2019, the Tofaş R&D Center is one of Turkey’s and FCA’s leading R&D centers by virtue of the diversity of its knowledge and experience, its competencies, and its advanced laboratory and technology assets.

Our R&D strengths were augmented in 2019 with the commissioning of new testing capabilities at the center and by the acquisition of new product-development and production-technology competencies through research projects conducted both in-house and through university-industry collaborations. During 2019 the center worked intensively on improving and developing the company’s Fiorino, Doblò, and Egea models while continuing to provide support for FCA’s R&D projects as well. Feasibility studies for a project to develop a new Egea model were also completed last year and this project’s R&D work is now under way.

Until 2019, we invested more than EUR 58 million in our R&D Center for design and test infrastructure, and during the year, we also invested EUR 150 million in equipment to improve our competencies.

The total value of design and test infrastructure investments undertaken at the Tofaş R&D Center as of end-2019 was more than EUR 58 million. Last year we undertook EUR 150 million worth of investments in order to increase our competencies.

In the conduct of our ongoing digital-transformation efforts, we carried out projects and case studies to foster the competencies of our employees, improve infrastructure and databases in 2019. On the other hand, we have strengthened our cooperation in various projects with different stakeholders.

CONSTANTLY INVESTING IN PEOPLE

The importance that we give and the efforts that we expend on behalf of their development and motivation are measures of the value that we place in employing human resources who are committed to creativity and improvement and who are competitive in spirit. Tofaş Academy, which carries out our training and development operations, equips not just Tofaş employees but also dealership network, Customer Care Center, and supplier personnel with the knowledge and skills they need to be ready for the future. In order to further boost our strengths in this area, we inaugurated Tofaş Academy’s new campus and social facilities last year while also opening our new “Industrial Development School”, which will be supporting the field personnel.

Tofaş was chosen Turkey’s one of the best workplaces in an Aon Best Employers survey while Tofaş Academy received a total of seven awards (three gold, two silver, and two bronze) in the Stevie Awards for Great Employers and Stevie

International Business Awards programs as well as gold and silver honors in two different categories in the Brandon Hall Excellence in Technology Awards program.

CONTRIBUTING SUSTAINABLY TO THE COUNTRY, THE ENVIRONMENT, AND THE COMMUNITY

When addressing sustainability issues, Tofaş takes a holistic approach that is mindful of the social, environmental, and economic dimensions of its actions and it strives to adhere to a management model that focuses on constant improvement and value-creation.

Having committed itself to sustainable-production principles, TOFAŞ also supports the transition to a low-carbon economy through its efforts to improve energy efficiency and is likewise a corporate member of the TUSIAD-REC Turkey Climate Platform. In 2019 Tofaş brought to 116 the number of its energy-efficiency projects, including those carried out as part of WCM Energy Management operations. Thanks to these projects, the company has conserved a total of 48,975 GJ of energy, thereby also reducing overall CO₂ emissions by 3,959 tons. While Tofaş was on the B band in the Climate Change program, the rating score in the CDP Water program was B. In 2019 Tofaş remained one of only fifty companies in Turkey whose shares qualify for inclusion in the BIST Sustainability Index, a distinction that they have enjoyed for the last six years in a row.

Tofaş also continued to support and carry out long-term social responsibility projects that are beneficial both to the national economy and to social wellbeing in the areas of sport, education, and culture & art.

WORKING TOGETHER TO ACCOMPLISH MORE...

Tofaş seeks to achieve sustainable growth through a strong and leading position in the automotive industry by constantly expanding not only its production capabilities and technological clout but also the added value that it generates for its stakeholders.

Underlying all of Tofaş’s success however are its human resources—people who constantly and steadfastly strive to do their jobs better. The strength that it gets from its employees is what enables Tofaş to raise the bar by which that success is measured even higher. Constantly improving its performance, in 2020 Tofaş will continue to invest in R&D, technology, and human resources in order to ensure the sustainability of its success.

In closing I take this opportunity to extend my sincerest thanks to our shareholders, customers, employees, dealers, suppliers, and all other stakeholders for the support and contributions that make our success possible.

Very truly yours,



Cengiz Eroldu
Board Member & CEO

SENIOR MANAGEMENT



CENGİZ EROLDU
Board Member & CEO

Cengiz Eroldu graduated from the Business Administration Faculty of Istanbul University in 1988 and completed the MBA program at LUISS University (Italy) in 1995. He began his career as an Audit Specialist at Koç Holding in 1989. He was appointed to the position of Assistant Accounting and Industrial Governance Manager for Tofaş in 1995, working in the Accounting and Industrial Governance Department and the Budget and Governance Department from 2001 to 2008, and in the Finance Department between 2008 until 2015. Since January 2015, he has been serving as Member of the Tofaş Board of Directors and CEO.



FABRIZIO RENZI
Financial Director (CFO)

Fabrizio Renzi received a degree in Business and Economics from Sapienza Università di Rome in Italy in 1992 and started his professional career as an accountant and tax advisor in 1992. Since 1998, Renzi has held various positions at Fiat Chrysler. After serving at various levels in Finance Department until 2013, he worked as CFO in Serbia FCA from 2014 until 2018 when he was appointed the Financial Director of Tofaş.



ZEKİ ERDAL ŞİMŞEK
Factory Director

Zeki Erdal Şimşek graduated from Istanbul Technical University, Aeronautics and Space Sciences Department in 1987 and completed the MBA program at Istanbul University in 1989. In 1990, he began his professional career as a Project Engineer at Tofaş; after 11 years of service, he was appointed Plant Manager at the Fiat automobile plant in Cairo. Returning to Tofaş in 2003, Zeki Erdal Şimşek served as a manager in different departments before becoming Quality Director. He has been the Factory Director since April 2017.



ALTAN AYTAÇ
Fiat Business Unit Director

Altan Aytac graduated from the Industrial Engineering Department of Boğaziçi University in 1992. He began his professional career at Tofaş Auto Trading where he was involved in setting up the first logistics department in the area of commerce. He completed the EMBA program at Koç University in 1997. The same year, he became Manager of the CBU Logistics Department. After completing the production integration and simplification projects in the area of outbound logistics, Mr. Aytac was appointed Commercial Projects Coordinator in 2003, Fiat Brand Manager in 2004, and Business Unit Director Turkey for the Alfa Romeo and Lancia brands in 2006. He rose to the position of Tofaş Supply Chain Director in 2008, and After Sales and Spare Parts Director in January 2015. Altan Aytac has served as Fiat Business Unit Director since August 2015.



VINCENZO CUSOLITO
R&D Director

Vincenzo Cusolito graduated from Padua University (Italy) in 1996 as a mechanical engineer. He started his career at Fiat, where he worked as a shift manager in the Metal Stamping Workshop and a market analyst in the Purchasing Department. Appointed as model responsible for the New Palio and Grand Siena in 2006, Mr. Cusolito worked for FIASA until the launch of Palio, which was named car of the year in Brazil at the time. Having returned to Italy in 2011 to work as Model Responsible for Egea Family, he was later assigned as Head of Chassis and Vehicle Dynamics for EMEA. Cusolito joined Tofaş as R&D Director in April 2017.



BURHAN ÇAKIR
Human Resources Director

Burhan Çakır graduated from Middle East Technical University, Department of Mechanical Engineering in 1986. He began his career in 1989 as an Engineer in Pressing Production at Tofaş. From 1993 to 2004, he served as Press Workshop Manager, Body Production Unit Manager, Part Export Department Manager and Industrial Control Manager. Burhan Çakır has served as Human Resources Director at Tofaş since 2004.

SENIOR MANAGEMENT



ÖMER ÖZGÜR ÇETİNOĞLU
Information and Communication
Technologies Director

Ömer Özgür Çetinoğlu graduated from Boğaziçi University, Department of Computer Engineering in 1992. He began his professional career the same year as a Software Engineer at Koç Holding. Between 1997 and 2002, Mr. Çetinoğlu worked as Business Development Manager at Koç Holding Consumer Products Group; in 2002, he was appointed Information Systems Manager at Beko Elektronik. From 2007 to 2016, he assumed several roles at Koç Sistem, including Consulting Group Manager, Business Solutions Director, Business Applications and R&D Director, respectively. In July 2016, Mr. Çetinoğlu was appointed Information and Communication Technologies Director at Tofaş.



ARZU YAZGAN
Corporate Communications
Director

Arzu Yazgan holds a degree in Economics (English) from Istanbul University. She began her professional career as a planning specialist at Doğu Automotive Service and Trading in 1995. Between 1998 and 2003, she served as Planning and Logistics Manager and VW Commercial Vehicle Marketing Manager. From 2003 to 2004, she took on the duty of Regional Director at Doğu Auto Marketing. Appointed Alfa Romeo Brand Manager at Tofaş in 2005, she continued as Business Unit Director of Alfa Romeo and Lancia in 2008. Since 2012, Arzu Yazgan has served as Corporate Communications Director at Tofaş.



DOĞU ÖZDEN
Financial Planning and Control
Director

Doğu Özden (CIA, CFSA) is a graduated from Boğaziçi University, Department of Economics, completed the MBA program at Koç University and the London School of Economics Strategy Certificate Program. He began his professional career as an Audit and Financial Group Manager at Koç Holding in 2001. He worked as an Audit Assistant between 2002 and 2003, a Financial Specialist between 2004 and 2005, a Senior Audit Specialist between 2005 and 2008. From 2010 to 2017, he took on the duty of Accounting Manager and 2017 to 2018 Financial Planning and Control Manager at Tofaş. In 2018, Doğu Özden was appointed Financial Planning and Control Director at Tofaş.



MAHMUT KARACAN
Sales Director

Mahmut Karacan graduated from Çukurova University, Department of Business Administration. He started his professional career as Logistics Expert at Çitasad A.Ş. in 1995; from 1996 to 2000, he was responsible for sales and marketing there. In 1997, he raced in the "Good Year Off-Road Cup." Between 2000 and 2012, he was responsible for Sales Marketing operations at Daimler-Chrysler. From 2000 to 2012, he was responsible for Sales and Purchasing at Daimler Chrysler; he founded Chrysler, Jeep Dodge Academy in 2003. He served as Sales and After Sales Services Business Unit Director for Lancia, Alfa Romeo and Jeep brands between 2013 and 2015. Mahmut Karacan was appointed Sales Director in 2015.



ÖZGÜR SÜSLÜ
Marketing Director

Özgür Süslü graduated from Boğaziçi University, Mechanical Engineering Department. He started his professional career in Italy at Fiat Group Manager Training program. Süslü worked in product development and product manager positions in Tofaş between 2002-2006 and involved in the development of products such as Linea, Doblò and Fiorino. Özgür Süslü undertook the role of Marketing Director of Fiat Light Commercial Vehicles between 2006-2010. He worked as the Director of Fiat Marketing at Tofaş between 2010 and 2016 and as Egea / Tipo Marketing Director in EMEA (Europe, Middle East and Africa) region at FCA. In 2017 he worked as Pricing Director of Fiat, Abarth and Lancia brands. Apart from this position, he also assumed the duties of Alfa Romeo and Jeep® Brand Director and Company Manager at Fer Mas Oto Ticaret A.Ş. in 2019.



GÜRAY KARACAR
External Relations Director

Güray Karacar graduated from Marmara University, Faculty of Communication in 1998. After working in the tourism, media and communications industries, he was appointed Secretary General of the Corporate Governance Association of Turkey in 2003. During the same period, he also served as Resident Coordinator for the United Nations Development Program and Member of the Executive Board of the Center for International Private Enterprise. In 2016, Güray Karacar was appointed External Relations Director at Tofaş.

SENIOR MANAGEMENT



SABRİ ERKAN POLAT
Vehicle Engineering Director

Erkan Polat graduated from Istanbul Technical University, Department of Mechanical Engineering in 1986. Between 1987 and 1989, he attended the Master's Program at the University of Manchester in the U.K. and earned his Master's Degree. Mr. Polat began his professional career as Design Engineer at Etibank Aluminum Enterprises in 1989. In 1992, he began working at Tofaş as Press Method Engineer. From 1999 to 2004, he served as Press Engineering Administrator and then Die and Press Business Development Manager, respectively. In 2006, he was appointed Die Production Manager, and from 2010 to 2013, he served as Die&Press Production Manager. Between 2013 and 2015, he worked as R&D Body Design Manager, and later as Egea Hatchback Model Manager from 2015 to 2016. Mr. Polat was appointed Product Engineering Director in 2016. Since 2018 Mr. Polat serves as Vehicle Engineering Director.



YÜKSEL ÖZTÜRK
Purchasing Director

Yüksel Öztürk graduated from Uludağ University, Mechanical Engineering Department in 1991. He began his professional career as Product Development Engineer at Tofaş in 1993. Between 2001 and 2005, he was appointed Direct Material Electrical Manager and Direct Material Electrical Manager. Since 2005, Yüksel Öztürk has been serving as Purchasing Director.



HÜSEYİN ŞAHİN
After Sales and Spare Parts Director

Hüseyin Şahin received his Bachelor's degree in Public Administration from Uludağ University in 1990. He started his professional career as Project Manager at Eftor in 1996. He served as Human Resources Expert at Fruehauf from 1997, becoming the Human Resources Manager in 1999. He joined Otokoç as Human Resources Manager in 2001; between 2003 and 2005, he served as the Antalya Branch Manager and Birmot Zincirlikuyu Branch Manager of Otokoç. From 2005 to 2011, he was the Birmot Assistant Operational General Manager. After serving as Sales Director at Tofaş between 2011 and 2015, Hüseyin Şahin was appointed After Sales and Spare Parts Director in 2015.



RECEP TEMİZESEN
Production Director

Recep Temizesen obtained his Bachelor's degree in Mechanical Engineering from Middle East Technical University in 1988. He started his professional career at Çimhol A.Ş. in 1988, where he worked as Project Engineer until 1991. He joined Tofaş in 1992 as a Press Method Engineer, subsequently serving as Press Shop Process Section Manager, Press Shop Engineering and Technology Manager, Press Shop Manager and Assembly Shop Manager from 1999 to 2015. Recep Temizesen has served as Production Director since 2015.



ONUR YALÇIN
Supply Chain Director

Onur Yalçın received his undergraduate degree in Industrial Engineering from Middle East Technical University in 1991 and his Master's degree in Operational and Industrial Engineering from Iowa State University (USA) in 1993. Since joining Tofaş as an Industrial Engineering Specialist in 1993, he has served as Production Planning Administrator, Parts Exports Manager, Order Manager, CBU Logistics Manager and Outbound Logistics Manager. Onur Yalçın was appointed Supply Chain Director in 2015.



SİNAN YILDIRIM
Quality Director

Sinan Yıldırım graduated from the Middle East Technical University as a mechanical engineer in 1988 and started his career at BOTAŞ. He joined Tofaş in 1990 where he first worked as an engine engineer in Method Mechanical unit and then as an engine specialist in the R&D Department, followed by an assignment in Italy for the new engine project. Appointed as head of engineering to the Transmission Parts Manufacturing Unit, Mr. Yıldırım joined Fiat GM Powertrain in 2001, where he worked until 2007. Having rejoined Tofaş at the end of 2007 as Product Quality Manager, he completed his MBA at Bilgi University in 2008. Appointed as Manufacturing Technology Manager in 2010, Sinan Yıldırım has been serving as Quality Director since 2017.

TOFAŞ HIGHLIGHTS IN 2019

FEBRUARY

500,000TH EGEA ROLLS OFF THE ASSEMBLY LINE



An Egea Hatchback, the 500,000th member of the Fiat Egea family rolled off the assembly line at the TOFAŞ plant in Bursa.

FIAT DEALERS' MEETING HELD



At 2019's first meeting of Fiat dealers, which was held in İstanbul, the previous year's "Seniority", "Performance", and "Star Dealer" awards were handed out.

MARCH

NEW VERSION OF EGEA AT THE GENEVA FAIR



"Sport", a new version of the Fiat Egea, which is sold in Europe under the "Tipo" name, was shown off at the Geneva Motor Show.

THREE SPORTY NEW MODELS FROM FIAT EGEA



Versions of the Egea family's hatchback and station wagon models fitted out with three different equipment options were put on sale.

APRIL

"İYİYE İŞARET": NEW SOCIAL RESPONSIBILITY PROJECT FROM FIAT



Fiat launched its "İyiye İşaret" digital platform to make it easier for Turkish speakers who have special hearing needs to communicate.

NEW TOFAŞ ACADEMY CAMPUS AND SOCIAL FACILITIES



A ceremony accompanied the opening of Tofaş Academy's new campus and social facilities.

MAY

A FACELIFT TO EGEA FAMILY



The Tofaş Board of Directors approved a USD 225 million investment to give the company's Egea model family a new facelift. The investment calls for the extension of the Egea project, for which Tofaş is undertaking major product development responsibilities, until 2024.

FIAT A SPONSOR AT THE VENICE BIENNIAL



Tofaş sponsored the exhibition of artist İnce Eviner's "We, Elsewhere" at the Turkish pavilion during the 58th International Art Exhibition of the Venice Biennale. Since 2011, Fiat has been supporting the activities of the Turkish pavilion under the coordination of the İstanbul Foundation for Culture and Arts.

JUNE

NEW JEEP RENEGADE IN TURKEY



A brand-new Jeep Renegade equipped with innovative tech, new engine options, and advanced safety features went on sale in Turkey.

JULY

TOFAŞ TURNS OUT ITS 6 MILLIONTH VEHICLE



The sixth millionth vehicle, a Fiat Egea Sedan, rolled off the assembly line at the company's plant in Bursa.

SEPTEMBER

"50 HOOPS" PROJECT LAUNCHED



Having launched its "50 Hoops in Neighborhood Areas" project in line with its mission to make Bursa "Basketball City", the Tofaş Sports Club has begun constructing basketball courts in different parts of the province. The opening of the project was held on the field in Yunuseli district of Osmangazi township.

MINISTRY JOINS TOFAŞ'S "İYİYE İŞARET" PROJECT



The Ministry of Family, Labor and Social Services has joined the "İyiye İşaret" digital platform as a partner in the project that Fiat launched in 2018 as part of its barrier-free movement program "Engelsiz Hareket" in order to make it easier to communicate with Turkish speakers who have special hearing needs. The agreement covering the collaboration was signed at a ceremony held in Ankara to observe the International Day of Sign Languages.

TWO MILLIONTH DOBLÒ



A major production milestone was passed with the two millionth Fiat Doblò, which spontaneously created its own light commercial vehicle market segment when the Tofaş factory began manufacturing them for export to world markets in 2000.

TOFAŞ HIGHLIGHTS IN 2019

OCTOBER

FIAT DEALERSHIP MEETING



Fiat dealers gathered in İstanbul to assess the year's results.

PROJECT TO TEACH KIDS HOW TO PROGRAM ROBOTS



In collaboration with the Information and Communication Technologies Directorate, Tofaş Academy launched a demonstration project whose aim is to teach children how to program robots and 3D printers, two activities that will play an instrumental role in shaping the future. Under the initial "Kids Coding Project", robot programming was taught to sixteen separate groups of 208 students, all of them the children of Tofaş personnel.

The scope of the project was then expanded in coordination with the Ministry of Education to provide the same kind of training in public schools in and around Bursa. As a result of this joint program, robot programming was taught to 240 pupils in primary schools that had been selected jointly with the education ministry.

TOFAŞ R&D AT 25



The Tofaş R&D Center completed its first quarter-century of operation. As one of Turkey's leading R&D centers by virtue of the diversity of its knowledge and experience, competencies, and advanced laboratory and technology assets, the Tofaş R&D Center is also the only FCA R&D center outside Italy that serves the European and Middle Eastern markets.

FERRARI F8 SPIDER ON ITS WAY TO TURKEY IN 2020



The "next-generation" Ferrari F8 Spider, a convertible sports car that is equipped with the most successful V8 engine in history, was shown off to the public at a special event held in İstanbul.

NOVEMBER

AT THE TOP IN WORLD CLASS MANUFACTURING

World Class Manufacturing (WCM) practices were first started at Tofaş back in 2006. As a result of the company's most recent audit, its WCM score was raised from 77 to 81. That rating puts Tofaş out in front of any other automotive plant in the world where the WCM methodology is being employed.

DECEMBER

FCA-PSA MERGER AGREEMENT SIGNED



Negotiations between Fiat Chrysler Automobiles and France's Groupe PSA were successfully concluded with an agreement to set up a new company in which each side will control a 50% stake. The agreement was signed by the FCA and PSA CEOs.

FIAT TIPO: MOST DURABLE AUTOMOTIVE IN ITS CLASS IN GERMANY

According to a report issued by GTÜ, Germany's largest officially-recognized inspection organization of freelance vehicle inspectors, that was published in the magazine Auto Zeitung, the Fiat Tipo has the fewest defects requiring repair work (0.84/100 vehicles) in its class during its first main inspection. That is the lowest defect rate ever achieved by any vehicle produced by FCA.

AWARDS & RECOGNITIONS

EGEA SEDAN: THE LEADER ONCE AGAIN

In the Gladiator Awards handed out by the Automotive Distributors Association based on 2018 performance figures, the Fiat Egea Sedan once again led the field with 34 thousand unit sales. This is the third year in a row that the car has been honored.

EGEA AND DOBLÒ OUT IN FRONT IN POLL OF NEW AUTOMOBILE BUYERS



According to the findings of the New Car Buyers' Survey, a series of polls conducted by IRC and GFK to identify European and Turkish market perceptions of Tofaş's products and services, Tofaş-made Egea Sedan and Doblò vehicles rank the highest in their respective groups.

CONSUMER-SATISFACTION AWARD GOES TO TOFAŞ



In the series of "Ministry of Trade Consumer Awards", Tofaş received the "Firm that makes consumer satisfaction a principle" award.

PROJECTS THAT ENHANCE INDUSTRIAL PRODUCTIVITY AWARD



During the 10th Energy Efficiency Forum & Fair conducted by the Ministry of Energy and Natural Resources, Tofaş received a success award for its "LED Conversion in Outdoor Lighting" project.

"GOLDEN COMPASS" AWARDS FOR TOFAŞGO AND TOFAS.COM.TR



At the 18th round of the Golden Compass Public Relations Awards handed out by the Public Relations Association of Turkey, both Tofaş's corporate website tofas.com.tr and its TofaşGO intranet platform placed first among the contenders.

TOFAŞ: ONE OF THE BEST PLACES TO WORK IN TURKEY UNDER THE AON BEST EMPLOYERS PROGRAM

In a poll of employers conducted by Aon Best Employers as part of its 2018 program, Tofaş was chosen "Turkey's one of the Best Workplaces". To qualify for such Aon Best Employer certification, a company is rated on the basis of four different benchmarks: employee engagement, leadership, performance culture, and employer brand.

SOCIAL MEDIA AWARD FOR DRIVER-FRIENDLY FIAT CONNECT



Driver-friendly Fiat Connect, connectivity technology that changes the driving habits of Fiat and Fiat Professional users and how they interact with their vehicles, was awarded a bronze prize in Social Media Awards Turkey program's "Mobile App" category.

TOFAŞ: ONE OF TURKEY'S TOP THREE EXPORTERS



In the Turkish Exporters Assembly's 2018 survey of Turkey's 1,000 best-performing exporters, Tofaş ranked third among the country's top exporters based on its 2018 performance figures.

AWARDS & RECOGNITIONS

FIAT DOBLÒ TV AD PICKS UP EFFIE AND GLADIATOR AWARDS



At the 2019 Effie Turkey Advertising Effectiveness Awards, Tofaş's "Fiat Doblò Sağlam İnsanların Sağlam Seçimi" TV ad picked up a silver award in the "Automotives" category. The same ad was also honored as "TV application of the year" in the Gladiator series of awards handed out by the Automotive Distributors Association.

TOFAŞ CUSTOMER CARE CENTER BRINGS HOME TWO INTERNATIONAL AWARDS



The efforts of the Tofaş Customer Care Center to oversee the digital transformation of the company's customer satisfaction management were acknowledged by Contact Center World with two of its prestigious international awards: "Best Contact Center" and "Best Customer Service" in Europe, the Middle East, and Africa.

"BRAND OF THE YEAR" AWARD GOES TO FIAT



In the Turkish round of the Campaign Agency & Brand of the Year awards program, Fiat was the award-winner in the "Automotives: Passenger vehicle" category for the second year in a row.

TOFAŞ COMMENDED IN EUROPE FOR ITS IN-HOUSE DEVELOPMENT OF LOGISTICS SOFTWARE

In the "Supply Chain Design and Engineering" category of the 2019 round of the European Automotive Logistics Awards, Tofaş was "highly commended for the in-house development of software that calculates logistics costs.

BRONZE FOR EUROLEAGUE ONE TEAM TOFAŞ RENK PROJECT



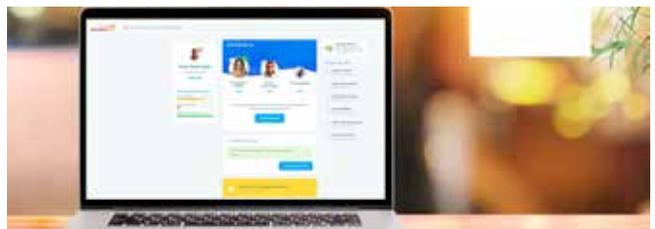
The "Tofaş Renk" project, which Tofaş Sports Club undertook jointly with the Renk Autism Association as part of Turkish Airlines EuroLeague's "One Team" social responsibility program, was awarded a bronze medal.

"İYİYE İŞARET" PLACES FIRST IN "MOST SUCCESSFUL KOÇ EMPLOYEES" AWARDS



Tofaş's "İyiye İşaret" digital platform project placed first in the "Environmental and social value-adders" category of Koç Holding's "Most Successful Koç Employees" awards program.

TOFAŞ ACADEMY WINS BRONZE STEVIE



At the ceremony to hand out 2019's Stevie International Business Awards, Tofaş Academy received a bronze Stevie in the "Connectivity Management Solutions" category for its networking platform.

TOFAŞ ACADEMY SNAPS UP SEVEN STEVIES

In the 2019 Stevie Awards for Great Employers and Stevie International Business Awards programs, Tofaş received a total of seven prizes: 3 gold, 2 silver, and 2 bronze.

FIVE AWARDS FOR TOFAŞ AT THE 2019 IDC SMART MANUFACTURING SUMMIT



When awards were handed out at the 2019 IDC Smart Manufacturing Summit held in İstanbul, Tofaş picked up a total of five. The company placed first in the “Big Data & Analytics” category and second in the “Internet of Things in Manufacturing” category with its “Realtime Prediction Analytics with IoT Big Data On Intelligent Cloud” project while its “Database Infrastructure Transformation” placed first in the “Data Infrastructure” category and its “Commercial Systems Renewal Project” placed first in the “Customer Excellence” and second in the “Enterprise Transformation” categories respectively.

FIRST PLACE FOR KIDS ROBOT PROGRAMMING PROJECT



Tofaş's project to teach robot programming to children placed first in the “Social Responsibility” category of the 2019 round of the “Captains of Technology” awards program.

TWO INTERNATIONAL AWARDS FOR TOFAŞ ICT

The Tofaş Department of Information & Communication Technologies placed first at the 2019 round of the ICMG Architecture Awards in the service-oriented architectural solutions and corporate architectural approach categories.

FIRST PLACE AT THE INTERNATIONAL QUALITY AWARDS



The Tofaş Quality Team brought home first-place honors in the “Development Systems” category from the International Quality Awards Ceremony in London for its “Garanti 4.0 Estimation System”.

TOFAŞ ACADEMY BRINGS HOME TRAINING TECHNOLOGY SILVER AND GOLD



In the 2019 round of the Brandon Hall Excellence in Technology Awards program, Tofaş's “Tideo” Video Content Management Software won gold in the “Best Advance in Content Management Technology” category and its “Zekky” Digital Development Assistant was awarded silver in the “Best Advance in Emerging Learning Technology” category.

NINE CRYSTAL APPLES

At the 31st round of the Turkish advertising industry's “Crystal Apple” awards program, Tofaş's Fiat and Jeep brands received a total of four crystal, three silver, and two bronze honors for their marketing and communication activities.

INSTITUTIONAL INVESTOR RELATIONS

As of end-2019, 78.9% of Tofaş’s shares were held by international investors. Last year of BIST-traded shares held by such investors was 61.1%.

MEETINGS WITH INSTITUTIONAL INVESTORS

The Tofaş Corporate Investor Relations Department conducted a total of four analyst meetings. These meetings were attended by members of senior management and consisted of a presentation of all the year’s quarterly results announced as of that date.

In addition to these four analyst meetings, 288 other meetings consisting of company visits, teleconferences, and investor conferences held in Turkey and abroad were attended, with the participation of 209 institutional investors and 79 financial analysts last year.

Tofaş took part in four international investor conferences and two investor conferences in Turkey during the year while 57 teleconferences were conducted with analysts and investors.

SHARE PERFORMANCE

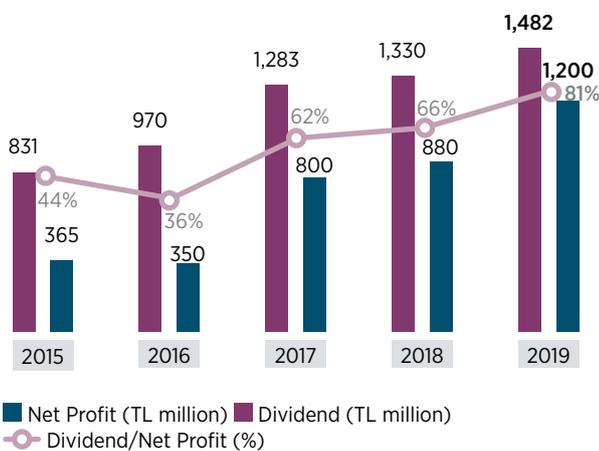
The average value of Tofaş’s publicly-traded shares was 9.9% lower in 2019 than it was in 2018. The company’s stock also underperformed the BIST 100 index during a year in which the index fell by 2.6%.

Taking year-end prices into account however, the value of Tofaş’s stock increased by 73.2% in 2019, thus outperforming the BIST 100 index, which was up by 25.4% in 2019.

TOFAŞ, BIST 100 AND INDUSTRIAL INDEX DAILY MOVEMENT ACCORDING TO CLOSING VALUES, 31.12.2018=100



DIVIDEND PAYMENT PERFORMANCE

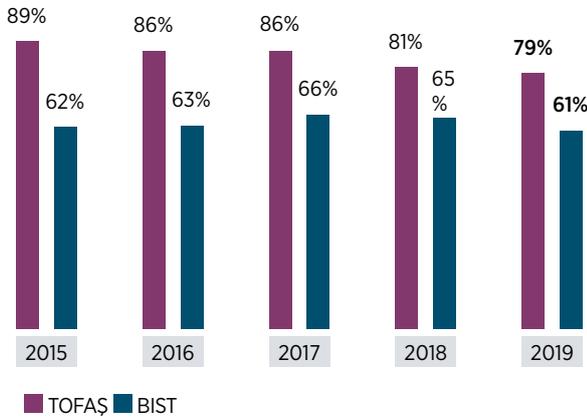


Tofaş’s prior dividend payments are shown below.

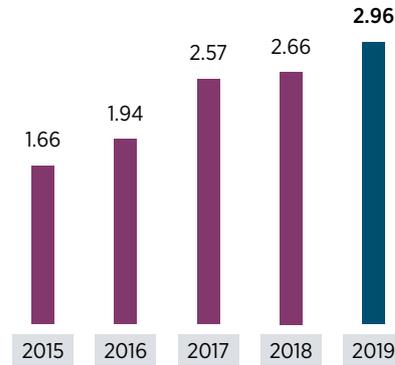
(TL MILLION)	2015	2016	2017	2018	2019
Net profit	831	970	1,283	1,330	1,482
Dividend	365	350	800	880	1,200
Dividend / Net profit (%)	44	36	62	66	81

Tofaş’s management proposes to pay out a 2019 dividend totaling TL 1,200 million in value. This figure corresponds to a 81% dividend based on its 2019 profit.

PERCENTAGE OF PUBLICLY-TRADED TOFAŞ SHARES HELD BY INTERNATIONAL INVESTORS (%)



EARNINGS PER SHARE (TL)



DEVELOPMENTS IN INTERNATIONAL INVESTORS' OWNERSHIP OF PUBLICLY-TRADED TOFAŞ SHARES

As of end-2019, 78.9% of Tofaş's shares were held by international investors. Last year of BIST-traded shares held by such investors was 61.1%.

CORPORATE GOVERNANCE AT TOFAŞ

The implementation of corporate governance principles as a dynamic process made necessary by developments in capital markets is a matter of decisive and increasing importance for Tofaş. Having committed itself to compliance with the Capital Markets Board's published corporate governance principles and adopted corporate governance as an inhouse corporate culture, TOFAŞ conducts its operations making such improvements and changes as emergent conditions may require. TOFAŞ takes a sustainable approach in the conduct of its corporate governance practices in keeping with the principles of transparency, accountability, fairness, and responsibility as spelled out in the Capital Markets Board's Corporate Governance Communique.

TOFAŞ has its compliance with corporate governance principles independently audited in a process in which its practices are individually rated under the headings of "Shareholders", "Public disclosure and transparency", "Stakeholders", and "Board of Directors".

Audited by SAHA, a corporate governance and credit rating services firm, Tofaş's corporate governance rating was reviewed as scheduled and revised once last year. Based on the results of a review of its 2019 operations, the company's corporate governance rating was announced as 9.26 in a report issued as of 1 November 2019. The complete text of this report as well as of previous ones in both Turkish and English is available for examination on our company's corporate website.

TOFAŞ'S CORPORATE GOVERNANCE RATING (%)

Shareholders	86.70
Public disclosures & transparency	94.53
Stakeholders	99.51
Board of Directors	92.41
Average	92.58

Tofaş's shares have been included in the BIST Corporate Governance Index since 2007. Because of the importance that the company gives to corporate governance principles, its compliance with this index's criteria is continuously and dynamically reviewed on a regular basis.

CONTACT INFORMATION

Tofaş's official investor relations webpages in Turkish and English are located at the addresses given below. These pages provide access to current information about analysts' presentations concerning the interpretation of the company's quarterly financial results, financial reports, a calendar of investor relations activities, and other matters that may be of importance to investors.

Tofaş Investor Relations webpage (Turkish):

<https://www.tofas.com.tr/Yatirimcilliskileri/GenelBakis/Pages>

Tofaş Investor Relations webpage (English):

<https://www.tofas.com.tr/en/InvestorRelations/GeneralOverview/Pages>

Institutional Investor Relations Department:

Devran Aydın

Accounting Manager & Investor Relations Executive

Telephone: +90 212 275 3390 Extension: 2754

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Mehmet A. Ağyüz, CFA

Investor Relations Manager

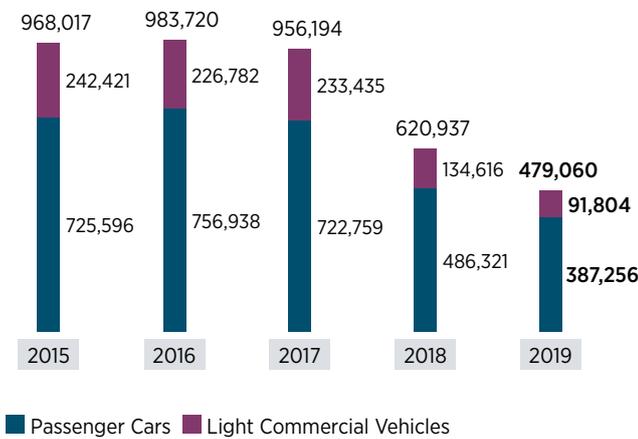
Telephone: +90 212 275 3390 Extension: 2751

Email: mehmet.agyuz@tofasc.com.tr

THE TURKISH AUTOMOTIVE SECTOR AND TOFAŞ’S POSITION IN THE SECTOR

The Turkish automotives market suffered from high interest rates in the first half of 2019 but began to recover in the second half of the year.

TOTAL DOMESTIC MARKET (UNITS)



Total sales in the Turkish retail passenger car and light commercial vehicle (LCV) markets in 2019 were down by 22.8% as compared with 2018 and amounted to 479,060 units. Passenger car sales declined by 20.4% (387,256 units sold) while light commercial vehicle sales fell by 1.8% (91,804 units sold).

With sectoral demand in the first half of 2019 adversely impacted both by high interest rates and by the attrition in the value of the Turkish lira, there was a 45.7% contraction in total light commercial vehicle sales. Neither a change (which remained in effect from the last quarter of 2018 and until midyear 2019) in the assessment base on which the special consumption tax is calculated, nor tax relief in the form of lower tax rates, nor a rebate (which remained in effect until year-end) for scrapping superannuated cars sufficed to fully counteract the market contraction although such measures were observed to help somewhat. Aided by declining interest rates, by efforts to stabilize the Turkish lira, and by low base effects however, a year-on-year recovery in demand appeared to be taking hold in the last four months of 2019.

In 2019 the Egea Sedan once again led the field as Turkey’s best-selling car for the fourth year in a row while Fiat itself rose to the position of market leader with the biggest share of total automobile sales in the country.

Turning now to automotives markets outside Turkey, the combined (EU + European Free Trade Association countries) European automobile market only marginally bettered its 2018 performance, growing by just 1.2% in 2019. In its light commercial vehicle market, a 2.8% rate of growth was registered. The Fiat Egea family, whose members are sold in Europe under the “Fiat Tipo” name, continued to perform successfully there.

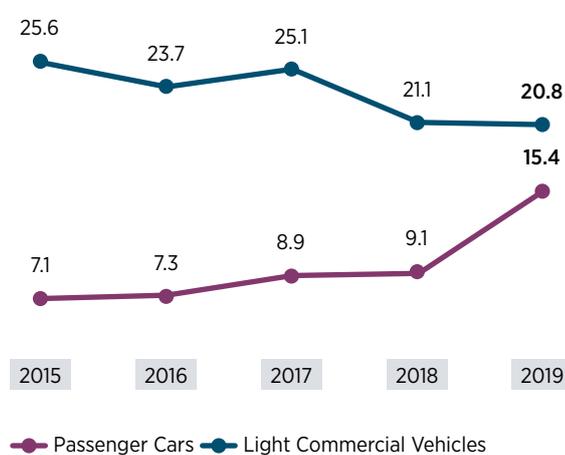
-22.8%

Turkish retail automobile and light commercial vehicle market sales numbered 479,060 units, down 22.8% as compared with 2018.

TOTAL DOMESTIC MARKET (UNITS)	2018	2019	CHANGE %
Automobiles	486,321	387,256	-20.4%
Light Commercial Vehicles	134,616	91,804	-31.8%
Total	620,937	479,060	-22.8%

The Fiat Egea Sedan once again led the field as Turkey's best-selling car for the fourth year in a row.

TOFAŞ'S DOMESTIC MARKET SHARES (%)



16.4%

With the sale of 78,692 Fiat, Fiat Professional, Alfa Romeo, Jeep, Ferrari, and Maserati vehicles, Tofaş commanded a 16.4% share of the overall automobile market last year.

DOMESTIC MARKET RETAIL SALES

Retail domestic market sales of passenger cars were down by 20.4% year-on and amounted 387,256 units. Tofaş's Fiat, Fiat Professional, Jeep, Alfa Romeo, Maserati, and Ferrari brands sold a total of 59,602 units, giving them an overall market share of 15.4%. By outperforming the sector as a whole, these sales boosted the company's overall passenger car market share by 630 basis points year-on.

Fiat's share of domestic market automobile sales in 2018 was 8.6%. The successful performance of the Egea family last year increased that share to 14.8% and advanced the Fiat brand to the position of automobile market leader in 2019. The sale of 52,206 Fiat Egea Sedans made that model Turkey's best-selling car for the fourth year in a row. Overall automobile market share was also boosted by sales of the company's Fiat Egea Hatchback and Station Wagon models.

Looking now at the light commercial vehicle market, we see that it shrank by 31.83% year-on in 2019 and amounted to 91,804 units sold. Although Tofaş's own sales to this market were down by 32.8%, the company nonetheless maintained its second-position market share at 21.1%. Despite a 31% year-on contraction in Doblò and Fiorino sales, Fiat continued to successfully defend its leading position in the LCV segment.

Turkey's automotives retail market in 2019 reached 479,060 units, of which 76,251 bore a Fiat badge. The company thus controlled a 15.9% market share, 4.60 percentage points higher than what it was the year before, and rose to the position of automobile and light commercial vehicle market leader as measured by total sales.

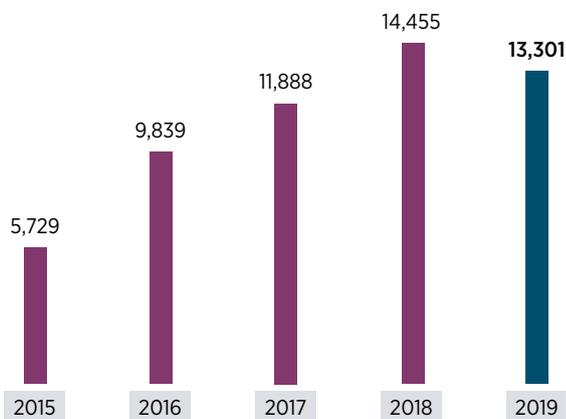
With the inclusion of Tofaş's Fiat, Fiat Professional, Jeep, Alfa Romeo, Maserati, and Ferrari marques, the company's overall market share was 16.4% while its total sales amounted 78,692 units. In 2017 these figures were 11.7% and 72,674 units respectively.

TOFAŞ'S DOMESTIC MARKET RETAIL SALES (UNITS)	2018	2019	CHANGE %
Automobiles	44,374	59,602	34.3%
Light Commercial Vehicles	28,390	19,090	-32.8%
Total	72,764	78,692	8.1%

THE TURKISH AUTOMOTIVE SECTOR AND TOFAŞ'S POSITION IN THE SECTOR

Tofaş exported a total of 194 thousand vehicles in 2019.

TOFAŞ'S ANNUAL EXPORT REVENUES (TL MILLION)



-8.0%

Tofaş's export earnings were down by 8% year-on in 2019.

EXPORTS

The combined (EU + European Free Trade Association countries) European automobile market was slightly (1.2%) bigger in 2019 than it was the year before. Detailing this performance on the basis of the biggest national markets, we see while that relatively stronger rates of growth were witnessed in Germany (5%) and France (1.9%), demand in the Spanish and UK markets was down year-on by 4.8% and 2.4% respectively. The hefty (21.7%) surge in European automobile sales that was experienced in December 2019 is attributable to future demand being shifted forward in anticipation of the introduction of new European emission standards that go into effect in 2020.

Turning now to Europe's light commercial vehicle market, we see that there was a 2.3% rate of growth in 2019. All major national markets performed well, with growth rates of 7.4%, 4.3%, and 4.1% being registered in Germany, Italy, and France respectively.

Owing to a 20.4% year-on contraction in its export sales, Tofaş completed 2019 with a total of 194,145 units shipped abroad. When the effects of the expiration of the company's Opel/Vauxhall contract in 2018 are factored out however, the 2019 contraction was a somewhat less disappointing 16.3%. In the event, Tofaş commanded a 15.3% share of Turkey's automotives exports in 2019.

The 2019 year-on declines in the company's exports of automobiles and light commercial vehicles were almost the same: close to 20% in the case of the former and around 21% in the case of the latter.

In view of these sales results, Tofaş's export earnings were down by 8% year-on in 2019 and weighed in at TL 13,301 million in value.

EXPORT SALES (UNITS)	2018	2019	CHANGE %
Passenger Cars	133,362	107,189	-19.6%
Light Commercial Vehicles	110,471	86,956	-21.3%
Total	243,833	194,145	-20.4%

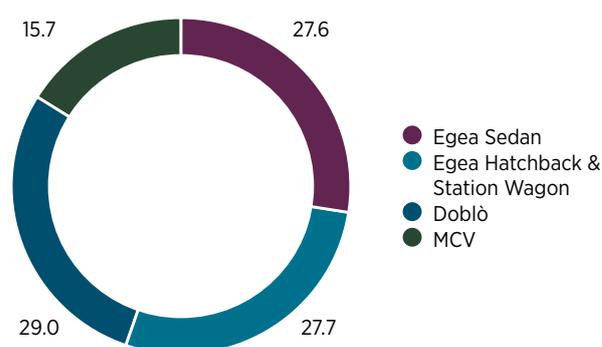


PRODUCTION

In 2019 Tofaş produced 264,197 vehicles, a performance that singlehandedly corresponded to a 18% share of the Turkish automotive industry's total output last year.

In 2019 Tofaş singlehandedly accounted for an 18% share of the Turkish automotive industry's total output.

BREAKDOWN OF PRODUCTION (ON UNIT BASIS, %)



PRODUCTION (UNITS)

	2018	2019
Egea Sedan	55,901	72,984
Egea Hatchback & Station Wagon	91,958	73,119
Doblò	104,198	76,529
MCV	49,693	41,565
Total	301,750	264,197

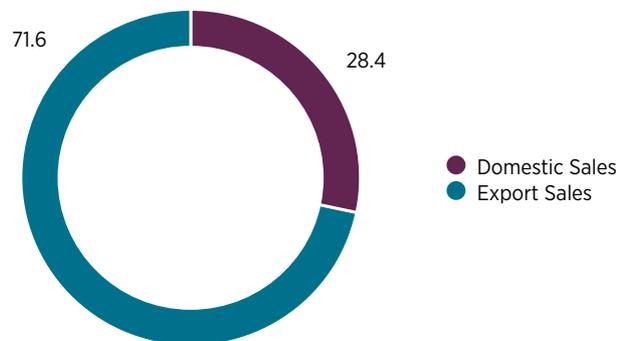
THE TURKISH AUTOMOTIVE SECTOR AND TOFAŞ'S POSITION IN THE SECTOR



UNIT SALES AND TURNOVER PERFORMANCE

Tofaş increased its domestic-market passenger car sales as a result of the successful performance of its Egea family.

BREAKDOWN OF SALES (ON UNIT BASIS, %)



SALES (TL THOUSAND)

	2018	2019	CHANGE %
Export Sales	14,455,023	13,301,313	-8.0%
Domestic Sales	3,934,701	5,355,308	36.1%
Other Income from Operational Activities	213,607	240,293	12.5%
Total	18,603,311	18,896,914	1.6%

SALES (UNITS)

	DOMESTIC SALES			EXPORT SALES			TOTAL		
	2018	2019	%	2018	2019	%	2018	2019	%
Passenger Cars	42,062	58,329	38.7	133,362	107,189	-19.6	175,424	165,518	-5.6
Light Commercial Vehicles	25,604	18,845	-26.4	110,471	86,956	-21.3	136,075	105,801	-22.2
Total	67,666	77,174	14.1	243,833	194,145	-20.4	311,499	271,319	-12.9

SALES (UNITS)	2018	2019	CHANGE (UNITS)
Domestic Sales	67,666	77,173	9,507
Manufactured	61,729	72,390	10,661
Linea	1,461	0	-1,461
Egea	32,986	51,565	18,579
Egea	2,403	3,071	668
Doblò	11,709	9,515	-2,194
Fiorino	13,170	8,239	-4,931
Imported	5,937	4,783	-1,154
Ducato	2,221	1,675	-546
Fiat 500	762	700	-62
Jeep®	2,402	1,929	-473
Fullback	135	55	-80
Grande	79	0	-79
Alfa	189	219	30
Panda	75	137	62
Maserati	46	48	2
Ferrari	18	20	2
Fiat	10	0	-10
Export Sales	243,833	194,146	-49,687
Tipo	24,600	23,160	-1,440
Tipo HB and SW	89,578	70,041	-19,537
Doblò	65,077	56,059	-9,018
GM	11,956	0	-11,956
Ram	15,774	11,340	-4,434
Minicargo	36,811	33,504	-3,307
Others	37	42	5
Total	311,499	271,319	-40,180

INVESTMENTS AND R&D EXPENDITURES

Tofaş's investments in 2019 amounted to EUR 106.6 million in value. The biggest share of Tofaş's total investments in 2019 went to the company's Egea Project.

2019 INVESTMENTS	EUR (MILLION)
New Doblò	25
Egea Family	52
Minicargo	12
Structural	18
Total	107

THE TURKISH AUTOMOTIVE SECTOR AND TOFAŞ'S POSITION IN THE SECTOR

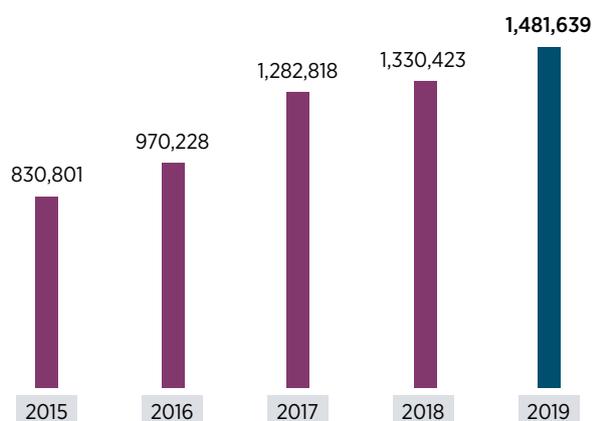
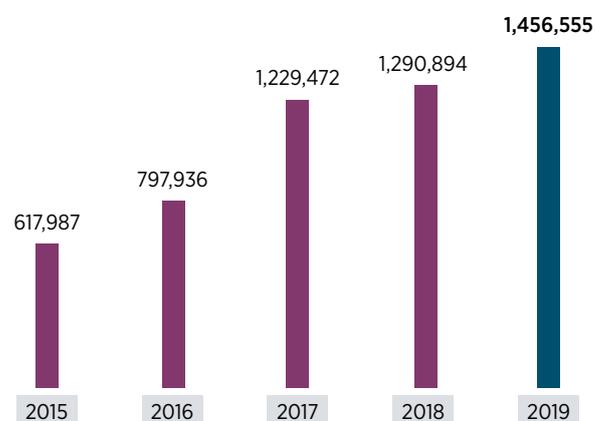
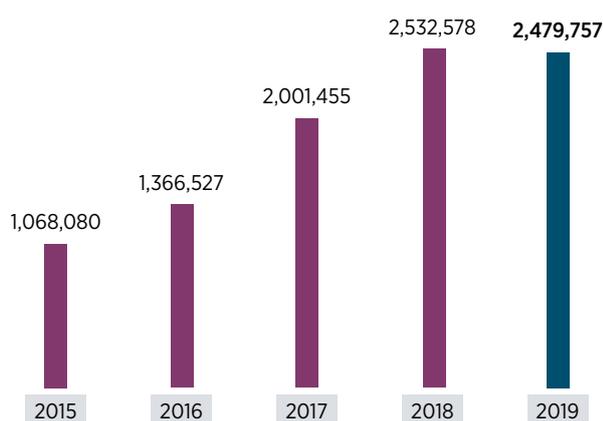


PROFITABILITY

Tofaş registered historically high levels in net profit in 2019. The company's net profit increased by 11.4% year-on and amounted to TL 1,481 million while its consolidated pre-tax profit was up by 12.8% and weighed in at TL 1,457 million. Tofaş's EBITDA declined by 1% year-on and was recorded as TL 2,480 million.

Tofaş registered historically high levels in all income items in 2019.

YEARS	EBITDA		PROFIT BEFORE TAX		NET PROFIT	
	TL thousand	Change %	TL thousand	Change %	TL thousand	Change %
2015	1,068,080	28.3%	617,987	30.90%	830,801	44.70%
2016	1,366,527	27.9%	797,936	29.10%	970,228	16.80%
2017	2,001,455	46.5%	1,229,472	54.10%	1,282,818	32.20%
2018	2,532,578	24.4%	1,290,894	5%	1,330,423	3.7%
2019	2,479,757	-2.1%	1,456,555	12.8%	1,481,639	11.4%

NET PROFIT (TL THOUSAND)**PROFIT BEFORE TAX (TL THOUSAND)****EBITDA (TL THOUSAND)**

Net profit was up by 11.4% in 2019 and amounted to TL 1,482 million.

Pre-tax profit increased by 12.9% and reached TL 1,457 million in 2019.

Down by 2.1% in 2019, EBITDA weighed in at TL 2,480 million.

AUTOMOTIVES INDUSTRY 2020 OUTLOOK

	2019 Realization	2020
Total automotive market (units)	479,060	560,000-600,000
Retail sales (units)	78,692	78,000-84,000
Export sales (units)	194,145	170,000-190,000
Production (units)	264,197	240,000-265,000
Investment outlays (fixed asset) (EUR million)	106.6	250.0

BRANDS & PRODUCTS

FIAT

Egea



Production of Fiat Egea commenced in September 2015. The automobile's engineering works were carried out mainly by the Tofaş R&D Center in collaboration with FCA. Fiat Egea has a special place in the history of the Turkish automotive industry as 70% of its development was made in Turkey.

Offering a wide range of sedan, hatchback, and station wagon body types, the Fiat Egea is preferred with its impressive design, comfort, utilities, and accessibility features.

Manufactured in Bursa and exported all over the world under Fiat Tipo and Dodge Neon brands, Fiat Egea was voted "Best-Buy Car Of The Year in Europe" at AutoBest 2016. Fiat Egea succeeded in becoming Turkey's most popular automobile for four years in a row between 2016-2019. According to a report issued by GTÜ, Germany's largest officially-recognized inspection organization of freelance vehicle inspectors, that was published in the magazine Auto Zeitung, in 2019 the Fiat Tipo had the fewest defects requiring repair work (0.84/100 vehicles) in its class during its first main inspection.

Fiat Connect technology, which makes it easier for drivers to interact with their vehicles, was added to the Fiat Egea family as an optional extra feature in 2018. The Egea family's Mirror version, which distinguishes itself with its high-tech features and chrome design details, went on sale in 2018. Street, S-Design, and Sport versions of the Egea Hatchback and Station Wagon models with superior equipment options were put on sale in March 2019. As of October last year, all Egea models had been brought into compliance with Euro 6d emission standards.

500



Deftly combining its sixty years of inherited DNA with new trends in design and offering many opportunities to personalize design details and features, Fiat 500 appeals to a broad audience. Fiat 500 was given a makeover in 2015 in a process that was careful to preserve the car's unique character and stylishness while adding technology and comfort features. Fiat 500's timeless look and feel ensures its distinctive place in the automotive industry.

The 500C version of the Fiat 500 is the only convertible in its class on sale in Turkey today. A limited special edition of the Fiat 500 dubbed "Dolcevita" went on sale in Turkey in 2019.

500L



Going on sale in 2013, the 500L quickly succeeded in becoming the leader of its own segment. A second-generation version of the Fiat 500L made its appearance in 2017 after undergoing a makeover. With its roominess, functionality, attractive design, and drive features the 500L combines "multipurpose family car" and "crossover" characteristics in a single model.

500X



Put on sale in 2015, the Fiat 500X is the 500 family's sportiest and most "masculine" member. Fiat 500X's standard-transcending quality, technology, active and passive safety features, and comfort options position it as one of the boldest offerings in the crossover segment.

Panda



On sale in Turkey ever since its introduction in 2004, Panda's convenience of use on city streets, relatively larger dimensions for its class and superior functionality make it a preferred choice. Reflecting the badge's "crossover" spirit, the Panda Cross was put on sale with 4x4 traction as an option.

FIAT PROFESSIONAL

Doblò



In continuous production since 2000, Doblò offers constantly improving durability, performance, and convenience features as well as different body options providing up to a one-ton carrying capacity and a high loading volume. A redesigned and reequipped next-generation Doblò with a roomy interior and economic engine options that continue to make it the preferred choice of big families as well as of tradesmen and artisans appeared on the Turkish market in 2015.

A steadfast companion of those doing business in the Turkish and European markets, RAM-badged Doblòs went on sale in the North American market as the ProMaster City in 2015. In 2016 and 2017 the ProMaster City was chosen by Green Car Journal as "Commercial Green Car of the Year". Put on sale in 2019 equipped with rain-sensing wipers and darkness-sensing headlamps, the Doblò was also brought into compliance with Euro 6d emission standards as of October. Fiat Connect technology was added to the Doblò family as an optional extra feature.

Fiorino



A product of Tofaş's Minicargo project, the Fiorino set a new milestone in Tofaş's history when the one-millionth vehicle rolled off the assembly line in 2016. Both a pioneer and a leader as the hallmark of a class of its own, the Fiat Fiorino is one of the best-selling light commercial vehicles in the Turkish market. The Fiorino remains the preferred choice of families thanks to its design and usability features on the one hand and of business owners thanks to its economy and practicality on the other.

Fiat Connect technology was made available to Fiorino drivers in 2018. In 2019, the Fiorino Eko, a factory-equipped LPG version of the model that can also be fitted with a 7-inch tablet screen in line with customer needs, was introduced. As of October, Fiorino engines had been brought into compliance with Euro 6d emission standards.

Pratico



As the "compact pickup" model of the Fiat commercial vehicle family, the smart design and maneuverability of Pratico make it easy to drive in city traffic. A next-generation version of Pratico with the same chassis as that of the Doblò distinguishes it from other models in its class while a carrying-capacity of up to one metric ton makes it especially useful for those who need to get around in city traffic. As of October 2019, Pratico's 1.6-lt engine had been brought into compliance with Euro 6d emission standards. Fiat Connect technology was added to the Doblò family as an optional extra feature.

BRANDS & PRODUCTS

Ducato



With the introduction of its first model in 1981, Ducato brought new inspiration to the commercial vehicle market. Constantly evolving in the years since then, Ducato has successfully established itself as the premier vehicle in its class. Its front-wheel drive, a powerful engine, and capacious loading and carrying space revolutionized the light commercial vehicle market. Flexibility, engine capacity, and low operating costs continue to make Ducato one of Europe’s most popular commercial vehicles.

With its van, pickup, and minibus versions, Ducato is able to respond to the diverse needs of different customer groups. In the last quarter of 2019, Ducato engines were brought into compliance with Euro 6d emission standards. Another innovation in the Ducato line that became available to customers last year was the addition of Fiat Connect vehicle-connectivity features as an option.

Fullback



Fiat Fullback appeared for sale on the Turkish market for the first time in 2016 with its “double-cab” body version. 150 HP and 180 HP versions of Fullback are on offer with 2.4 liter turbo diesel engine options. Fiat Fullback is an all-round pickup capable not only of satisfying all of the demands of professional use but also of fulfilling all the requirements of everyday life.

ALFA ROMEO

Giulietta



The legendary Giulietta has been reintroduced in 2010. As Alfa Romeo’s representative in the compact hatchback class, the Giulietta is especially preferred by style-conscious owners who like its attractive design, powerful, superior drive quality, and comfortable interiors.

Stelvio



Alfa Romeo set a new milestone in its 107-year history with the 2017 introduction of Stelvio, its first offering in the SUV market. Offering the best acceleration performance in its class, Stelvio distinguishes itself from its rivals by virtue of its Q4 AWD traction system and its perfect weight balance. What’s more thanks to its first-class technology and innovative platform, Stelvio achieved a 5-star Euro NCAP rating by racking up 97 out of 100 safety points for adult occupants.

Giulia



Outstanding in its class by virtue of its unrivaled Italian stylishness and superior reliability while also achieving a perfect balance between form and function for an excellent driving experience, Alfa Romeo Giulia made its first appearance on the Turkish market in 2017. Equipped with advanced racing technology, Giulia brought a new point of view in the sports sedan segment with its interior and exterior design features, high-quality materials, and superior performance.

JEEP®**Compass**

Introduced to the Turkish market in 2017, Jeep® Compass distinguishes itself from the competition with completely overhauled design and equipment features. Jeep® Compass carries on Jeep®'s legendary off-road tradition with its interior design equipped with premium details, and true 4x4 performance.

Wrangler

Wrangler is the iconic heir of more than seven decades of Jeep experience in civilian off-road vehicle design and manufacture. Features such as superior ground clearance, approach and departure angle, and turning-radius and wheelbase ratings together with the most-reliable and deepest (76 cm) water-fording capabilities in its class are among the reasons why Jeep Wrangler is regarded as the best of its breed.

Grand Cherokee

The flagship of the Jeep brand, the legendary 4x4 Grand Cherokee appeals to consumers with its 3.0-liter diesel engine. The vehicle's attention-grabbing on-road driving comfort, advanced technology, and luxurious interior are matched by superior off-road performance that is delivered by Jeep-patented Quadra-Lift and Selec-Terrain four-wheel drive systems. With a large baggage space, Grand Cherokee offers much more space for both cargo and passengers.

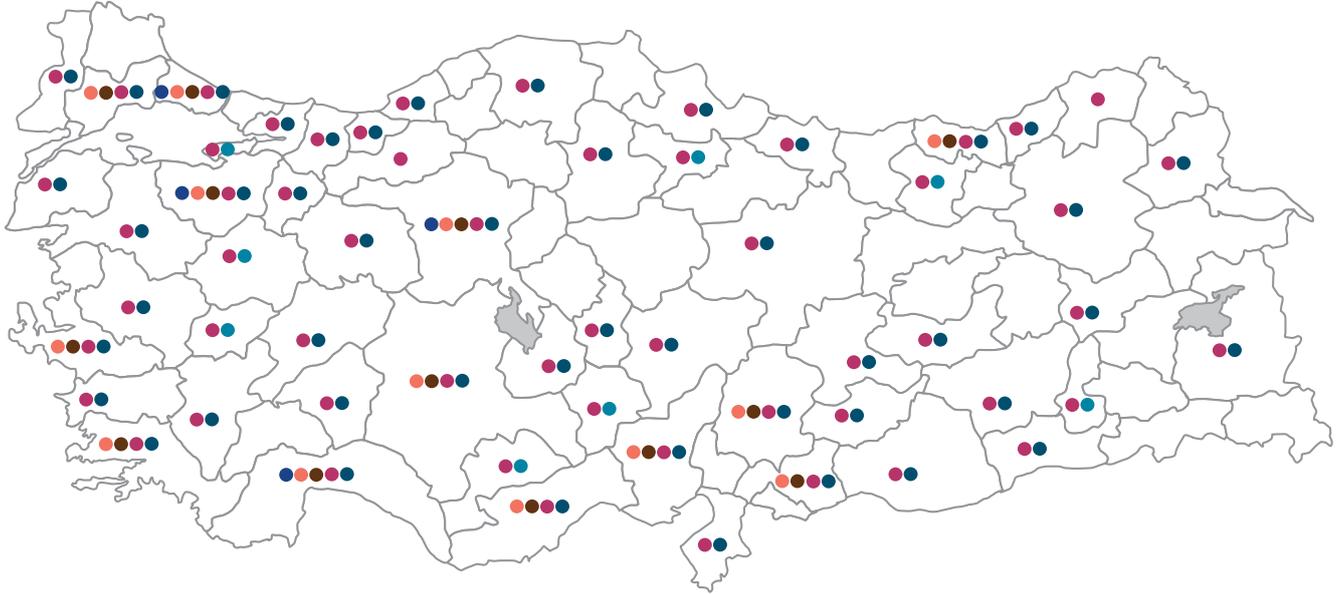
Renegade

Designed in the USA and built in Italy, Renegade is the smallest, most colorful, and most energetic member of the Jeep® family's offerings in the SUV class. Having first entered the Turkish market in 2014, an enhanced, more dynamically-designed version of the Jeep Renegade equipped with innovative tech, new engine options, and advanced safety features went on sale in Turkey in 2019.

LANCIA

In line with strategic decisions, all models in Lancia series have been dropped except for Ypsilon, which continues to be sold in Italy. Sales of Lancia vehicles were therefore suspended in Turkey in 2015, though after-sales services will of course continue to be provided.

DEALERS NETWORK



- Fiat main sales dealer ● Fiat satellite sales dealer ● Fiat service point
- Alfa Romeo-Jeep® main sales dealer ● Alfa Romeo-Jeep® service point ● Maserati main sales dealer

Tofaş has 76 dealerships located all over Turkey.

Nearly all Tofaş dealers qualify as “integrated”, which means that customers can find sales, services, and spare parts at a single location. Many Tofaş dealers also provide customers with such additional services as compulsory and optional motor vehicle insurance coverage and vehicle financing.

All 71 of the Fiat main dealers in the network also service the company’s Alfa Romeo and Jeep® brands. With the inclusion of those not associated with the premises of the network’s main dealerships, there are 98 Fiat sales points and 122 Fiat service points located all over Turkey. There are also 19 Alfa Romeo-Jeep® main dealerships, together with another four locations that only service the vehicles.

The dealership network for the brands which Tofaş represents sells new vehicles, second-hand vehicles, and spare parts and also provides maintenance & repair services.

LONG-TERM, TRUST-BASED BUSINESS RELATIONS

Tofaş has 76 dealerships located all over Turkey. The company constantly enhances customer satisfaction through the long-term, trust-based business relations which it enters into with its dealers, its advanced logistical and distribution competencies, and its advanced after-sales services capabilities.

CONNECT AND DRIVE AWAY!

In 2019 Tofaş launched its “Showroom Online: Connect and drive away!” project. The first “virtual showroom” of its kind in Turkey, it makes it possible for customers to video-chat with sales personnel online without the need to install an app or to make an appointment. Accessible from the company’s www.fiat.com.tr website, the project’s real-time video-chat capabilities give potential customers the experience of visiting a dealership and even finalizing their purchase conveniently without having to be physically present there.

SUBSIDIARIES

Our company's transactions with its related parties are presented in the note 27 of the financial report.

KOÇ FIAT KREDİ FİNANSMAN A.Ş.

Koç Fiat Kredi offers consumer financing for the brands sold by Tofaş. In 2019, the Company's total loan portfolio stood at TL 2 billion with TL 1.6 billion provided for the purchase of around 28 thousand cars during the year, financing 45% of Tofaş's retail sales. Koç Fiat Kredi continued to fund its growing loan portfolio through bank loans and issuances of securities. The total sum of these resources amounted to TL 1.8 billion as of the end of 2019. The securities issued had a nominal value of TL 190 million.

In 2019, the Company's national short-term credit rating was confirmed as (TR) A1+ and its long-term national credit rating as (TR) AA.

Forward-looking expectations Koç Fiat Credit aims to continue increasing efficiency in operational business processes with its advanced technology based projects which it plans to develop in 2020. In addition, it will implement its customer road map structure, which has been created by focusing on improving the end-to-end all credit processes of its end customers through customer / risk modeling activities based on data analytics.

HIGHLIGHTS	2019
Outstanding Portfolio (TL million)	1,974.8
Outstanding Financed (units)	60,942
Penetration (excluding big fleet sales)	44.7%
Penetration (total Tofaş sales)	30.7%
Loan applications (units)	117,655
Financed units (total)	28,231
Financed units (Tofaş)	24,133
Financed units (2 nd -hand + Iveco)	4,098
Financed amount (total) (TL million)	1,589.20
Profit before tax (TL million)	69.2

FER MAS OTO TİCARET A.Ş.

Founded in 2005, Fer Mas Oto Ticaret A.Ş. both represents and provides after-sales services for Ferrari and Maserati automobiles in Turkey. Tofaş controls a 99.4% stake in the company.

Ferrari



In 2019, a total of twenty Ferraris were sold in Turkey.

In Ferrari's Testa Rossa awards program, which recognizes various categories of "best performers" among Ferrari dealers throughout the world, Fer Mas placed in the top three among 240 participants worldwide in the "Aftersales Services: Aftersales Services Manager" category as well as in the top twelve among close to a thousand participants in the "Master Technician" category.

Replacing the 488 GTB and representing the current pinnacle of Ferrari engineering prowess, the F8 Tributo was shown off at the 2019 Geneva Motor Show. Last year Ferrari also unveiled the SF90 Stradale, its first mass-produced sports car to feature PHEV (Plug-in Hybrid Electric Vehicle) architecture and to be equipped with four-wheel drive. At Universo Ferrari, the first event dedicated exclusively to Ferrari in its hometown, 2019 witnessed the launch both of the F8 Spider and of the 812 GTS, the latter being an open-top version of the Ferrari 812 Superfast. The Ferrari F8 Spider was also introduced here in Turkey last year. Late 2019 saw the introduction of the Ferrari Roma, a GT hardtop coupe powered by an award-winning V8 engine in its namesake city and Italy's capital, Rome.

Maserati



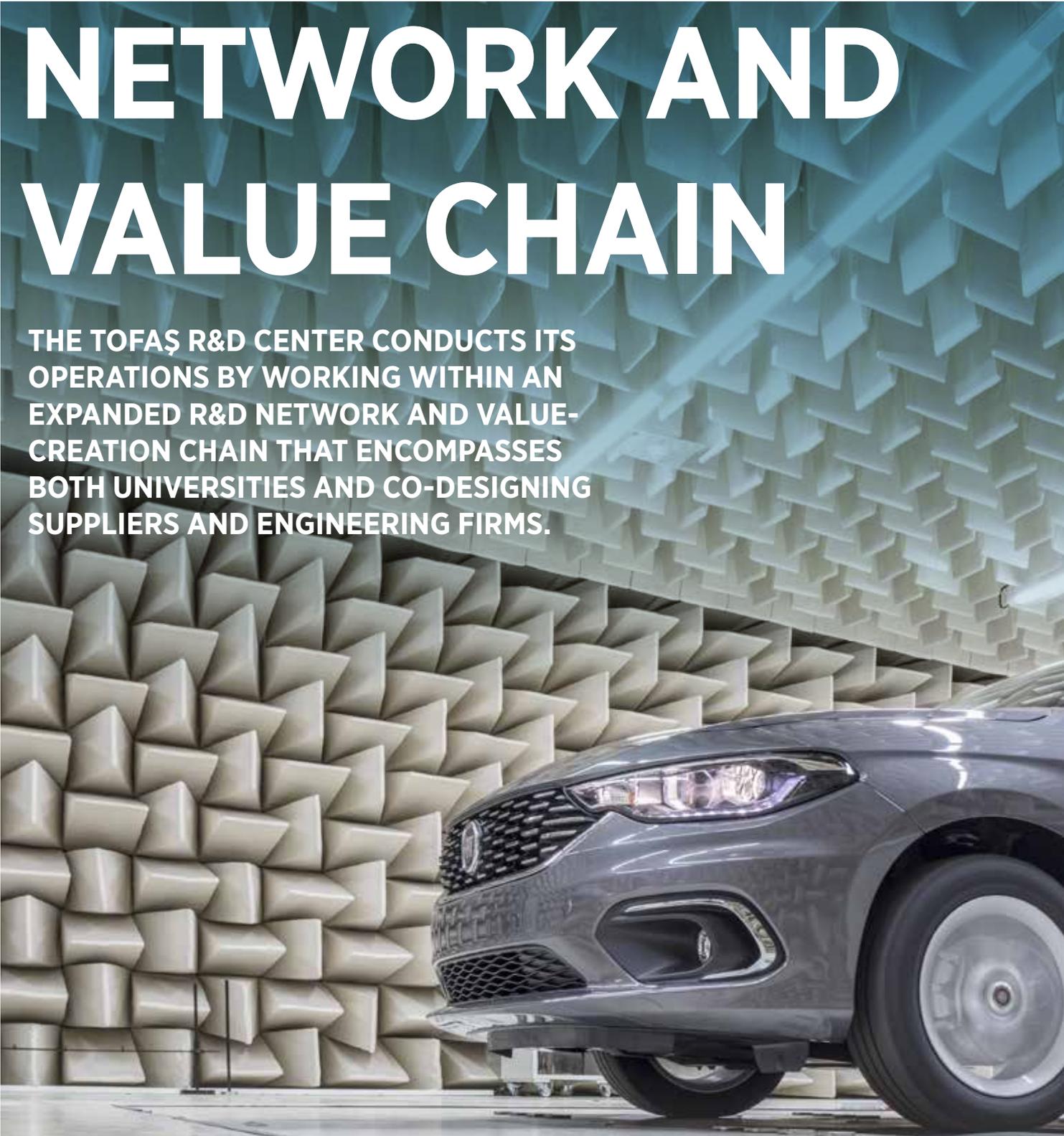
Opening their doors for the first time in 2017, the Ankara Birmot, Bursa Mengerler, and Antalya Maserati showrooms & dealerships are the mainstays of the Maserati sales and services network in Turkey. In 2019 they sold a total of 48 cars.

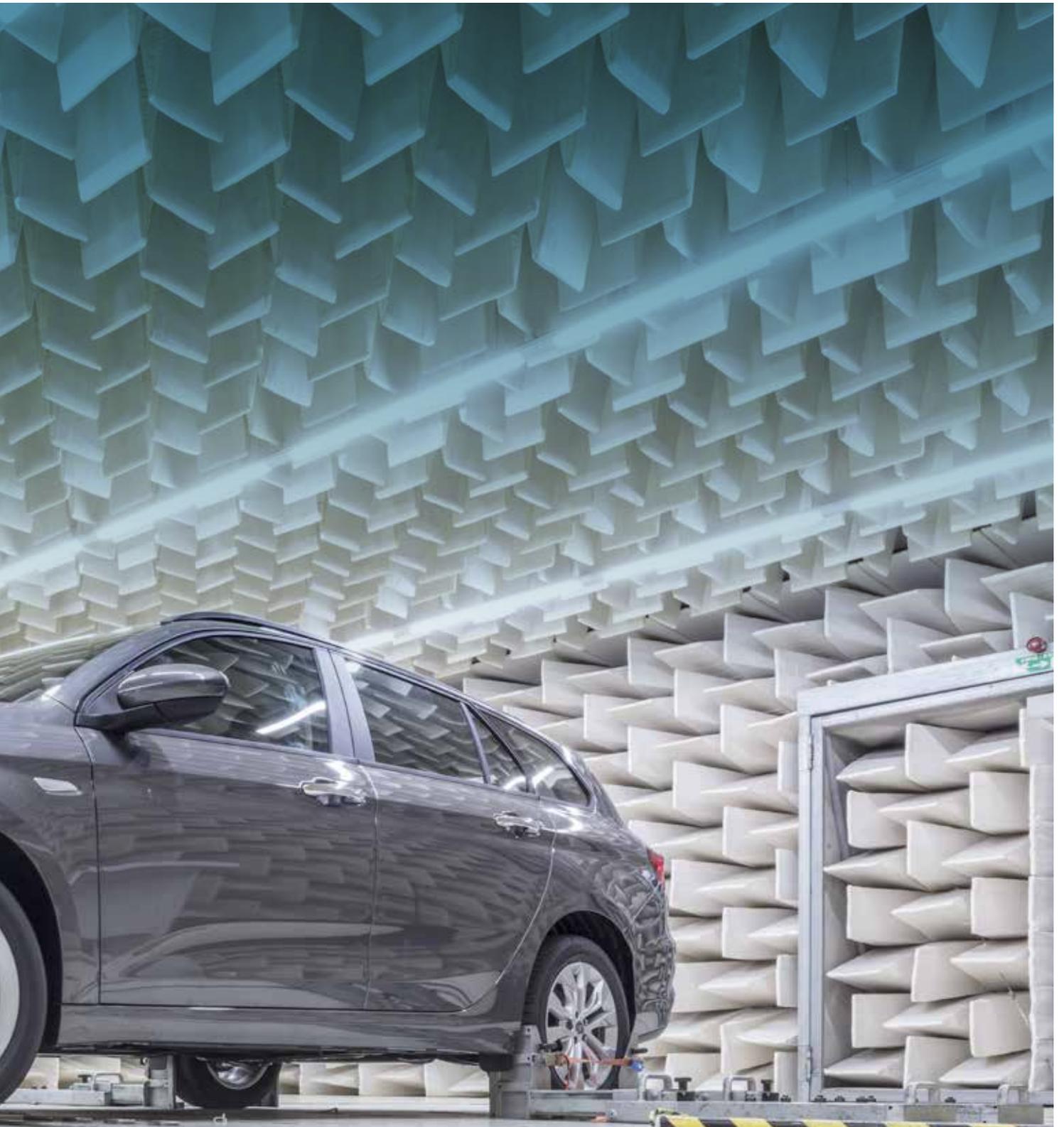
A variety of events, sponsorships, and joint undertakings were organized last year to promote the Maserati badge and help increase its visibility and prestige.

EXPANDED R&D

NETWORK AND VALUE CHAIN

THE TOFAŞ R&D CENTER CONDUCTS ITS OPERATIONS BY WORKING WITHIN AN EXPANDED R&D NETWORK AND VALUE-CREATION CHAIN THAT ENCOMPASSES BOTH UNIVERSITIES AND CO-DESIGNING SUPPLIERS AND ENGINEERING FIRMS.





R&D OPERATIONS



CONTINUOUSLY INVESTING IN INFORMATION AND TECHNOLOGY

Celebrating the 25th anniversary of its foundation in 2019, the Tofaş R&D Center seeks to contribute to the national economy by developing passenger and light commercial vehicles that are technologically compatible with market needs and distinguished by their engineering and design details.

The Tofaş R&D Center's target is to be a globally competitive product and technology development center which, in keeping with requirements, adopts and adapts existing technologies and rapidly deploys new ones. The center seeks to realize this target by successfully formulating projects for new products that address market needs and then supplying such products to market and by improving existing products in line with expectations. In order to achieve these objectives, the Tofaş R&D Center gives importance to working within an expanded R&D network and value-creation chain that encompasses both universities and co-designing suppliers and engineering firms. The center also plans and undertakes innovative-technology research projects so as to support its priorities.

Equipped with everything that it needs to compete with its global peers in the areas of vehicle research and development, the center employs more than 700 people in a total of

20,110 m² of laboratory and office space. With its high-tech laboratories and diversified range of capabilities, the Tofaş R&D Center is the FCA's only research and development center serving the European market that is not located in Italy.

As of 2019, the total value of all of the design and test infrastructure investments completed at the Tofaş R&D Center in the areas of vehicles' concept, styling, bodywork, interior design, suspension, engines, emissions, vibration, and acoustics aspects topped EUR 48 million in value. The Tofaş R&D Center has increased its capability of developing more competitive products with its new test areas. The Tofaş R&D Center invested EUR 10 million in these test areas which were put into operation in 2019.

GREATER COMPETENCIES IN PRODUCT DESIGN AND MANUFACTURING TECHNOLOGIES

The Tofaş R&D Center possesses all of the product engineering design and analysis competencies that may be needed to completely design a vehicle from start to finish. The Tofaş R&D Center keeps a close watch on the latest developments in product and production technologies in line with the company's strategic goals. Competence development is supported by research projects as well as theoretical and on the job training programs. Tofaş R&D Center constantly improves its competence and product development processes

The Tofaş R&D Center’s target is to be a globally competitive product and technology development center which, in keeping with requirements, adopts and adapts existing technologies and rapidly deploys new ones.

by making use of new technologies. In line with the Tofaş R&D Center’s strategic objectives, the company likewise supports research projects that will lead to gains in product development and manufacturing technology knowhow.

The research studies of the Tofaş R&D Center are addressed towards Tofaş’s strategic priorities, focusing on three cross-cutting grounds: environmental sustainability, meeting social mobility needs and increased productivity. Studies on productivity give priority to digital optimization of processes and low-cost automation in all areas. The Tofaş R&D center’s focus on environmental sustainability addresses such issues as vehicle electrification and reducing vehicles’ weights and energy consumption.

JOINT PRODUCT DEVELOPMENT COLLABORATIONS

A prerequisite for Turkey’s increasing its international visibility and viability as a product development center is an ability to simultaneously address all of the elements of the R&D value-creation chain. This is why Tofaş gives special importance to joint design and development projects, to marshaling the resources of local engineering firms, and to working together with universities. Undertaking university-industry collaboration projects in parallel with its technology-development operations, Tofaş R&D collaborated with sixteen different universities on about 130 projects in the last fifteen years.

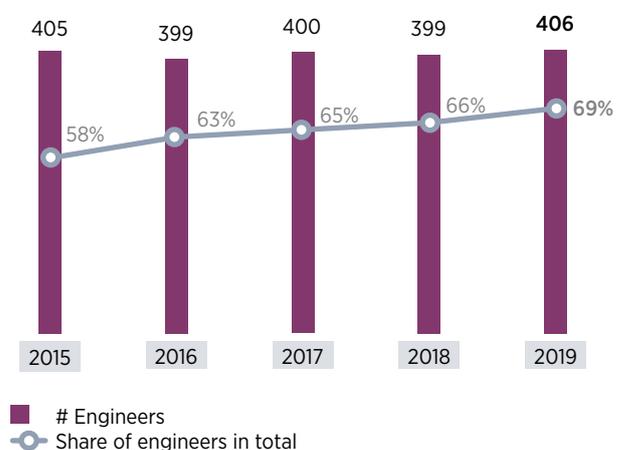
In the many projects that are undertaken with the support of the Scientific and Technological Research Council of Turkey and of the European Union, the Tofaş R&D Center also works together with university faculty members as well as with the Fiat Chrysler Automobiles Research Center and various international design centers.

Having increased the number of EU Research Projects in which it is active to 23, Tofaş R&D also collaborates with nearly two hundred international project partners.

The Tofaş R&D Center’s goal is to increase the number of patents that it applies for every year by coming up with new projects and innovative ideas that create added value. As a result of the innovative work carried out by the Tofaş R&D Center, new applications for 107 domestic and 10 international patents were submitted in 2018. In the conduct of its 2018-2019 operations, the Tofaş R&D Center was intensively engaged in model-improvement projects for the Fiorino, Doblò, and Egea lines. Tofaş R&D engineers also provided support for Jeep® Compass, Fiat 500 BEV, and FCA MOPAR R&D projects. With the completion of feasibility studies for a new Egea model development project, work was begun on the project’s R&D phase. Work was also carried out on projects to develop the Doblò, Egea, and Fiorino lines so as to make these models more competitive. Developmental projects will also continue in 2020.

When recruiting personnel for the Tofaş R&D Center, priority is given to people with advanced academic degrees. As of end-2019, 131 of the center’s staff had been awarded master’s degrees or doctorates. A chart showing the number and academic qualifications of the center’s staff since 2015 as well as the number of engineers employed at the center is presented below.

ENGINEERS INS THE TOFAŞ R&D CENTER



DIGITAL TRANSFORMATION

In order to improve its productivity, Tofaş exploits the impact which new technologies, especially those incorporating artificial intelligence, platform economies, and crowdsourcing have on traditional competitive factors.

Advances in technology deeply affect strategic priorities and practices. In the age of machine-learning, Tofaş is aware of the need, to correctly balance its traditional and data-based decision-making processes on the one hand and its people-centered and machine-based approaches on the other in order to make sure that its success remains sustainable.

The company is careful to incorporate the needs of changing market and customer relationships into its policies and practices and is mindful also of maintaining a balance between traditional and platform-economy-based new approaches in its business management and revenue-stream models. It takes steps to develop structural solutions and business and process definitions according to the needs of the new economy in order to establish the right balance between central and decentralized trends in the ways that business is done.

In this regard, although priority is given to productivity-improving digital-optimization applications, digital-transformation applications that have the potential to change revenue-stream models are also taken into consideration depending on the company's strategic priorities.

Because new technological solutions may not be directly applicable to existing process and information structures, a two-pronged approach is taken which aims to ready the data-structure and information-management infrastructure and to develop talent on the one hand and to develop case studies accordingly on the other.

STRUCTURAL READINESS AND TALENT MANAGEMENT

Corporate talent for dealing with new technologies has become the most important lever of strategic and business priorities today. For this reason, Tofaş guides the development and the structural/management changes in its information infrastructure and competencies in such a way as to establish the right balance between the "traditional" and the "new".

As an essential element of its digital transformation program, Tofaş invests in the development of its data-management infrastructure and in information technologies such as 5G, cloud, and cybersecurity while also continuing to improve the features of its existing databases. In 2019, investments were made in order to continue the ongoing robotic transformation of the company's basic infrastructure and office processes.

- In the commercial domain, the Dealer Management System (DMS) was completely renovated. Besides simplifying access to information, the new system provides for more convenient data deduplication and applications development.
- In the industrial domain, the Internet of Things (IoT) infrastructure was developed in order to provide for both centralized and localized (edge) solutions. Predictive maintenance applications have also been initiated on the same infrastructure.
- In order to improve both their productivity and their convenience, human-resource management applications were transferred to a web- and mobile-based internal IT system.
- Office process productivity was improved by the installation of a robot that automatically optimizes office processes.

Making use of the infrastructure outlined above, commercial, industrial, product, and human-resource management applications continue to be developed and commissioned in line with business priorities. A participatory management structure has been set up in order so as to ensure broad-based guidance and familiarity with application roll-outs.

TALENT AND ECOSYSTEM DEVELOPMENT

Ensuring that Tofaş's entire value-creation derives the full benefit of the capabilities afforded by new technologies and developing a technology-focused solution ecosystem also fall within the scope of the company's digital transformation program.

Two important considerations in the implementation of Tofaş's digital transformation program will be the business-oriented fostering of technology culture and competency throughout the company on the one hand and expansion of the ecosystem so as to include appropriate technology solution partners on the other.

For this purpose we have launched a Data Science Program and begun expanding our data science capacity within the framework of our digital transformation plan; we have

identified areas of specialization for guiding the acquisition and implementation of such fundamental technologies as data science, machine learning, IoT, robotic process automation; and we have begun developing the elements of a platform management system for expanding the ecosystem that also takes into account the establishment of appropriate legal infrastructure.

Another pillar of this program is concerned with fostering technology literacy and digital transformation culture both within Tofaş and throughout its value-creation chain. For this purpose, Tofaş Academy, working together with our technology partners, has developed a program that turns digital transformation into a cultural journey whose aim is to support the spread and adoption of technology literacy and digital culture. Individualized, classroom, and video training resources are made available under this program.

As part of its corporate initiative approach, Tofaş also regularly takes part in programs with other Koç Holding organizations as well as with external actors such as NGOs, universities, technology transfer offices, incubation centers, and angel investment networks with the aims of enriching the customer and employee experience and of improving productivity.

In order to provide an environment suitable for developing fast and lean solutions for addressing the needs of Tofaş's supply chain, a special program has been launched that brings the chain into contact with the lean-enterprise world.

In order to make idea management a part of the "idea-to-practice" process and to enable it, the Tofaş Information & Communication Technologies Directorate also supports digital-transformation proposals by taking part in their management and by serving as a facilitator of that process both internally and externally.

PEOPLE-FOCUSED TRANSFORMATION

TofaşGO is a web- and mobile-based app that was developed and launched to serve as an internal communication platform that makes life easier for Tofaş employees. Offering such features as live broadcasts, social group formation, individualized notifications, and multi-direction real-time feedback, TofaşGO supports digital environment personalization and socialization. By providing quick access to all of the company's human-resources management portals, TofaşGO also lets people manage their own processes conveniently and without red tape. The app's portals are designed to solicit feedback so that they may be dynamically developed.

Because new-technology solutions also entail discovery and learning processes each one of which may involve unique developmental processes and impose unique competency requirements, the solutions need to be managed accordingly. Tofaş Academy constantly updates its programs and



methodologies so as to ensure both that discovery and learning processes are developed and guided methodically and that the processes address changing competency requirements.

FIAT CONNECT

Fiat Connect is a web- and mobile-based support service that was introduced in 2018. It makes it easy for Fiat users to get and manage detailed information about their vehicles, including service history, and also receive individualized reminders about special campaigns and periodic maintenance. Fiat Connect was launched to give drivers the benefit of continuous, two-way connectivity technology in every model of every vehicle that is made by Tofaş.

When Fiat Connect is activated with its original startup settings, it provides a user with convenient access to information about a vehicle wherever it may be. A Fiat Connect user can see where a vehicle is parked, be notified if the vehicle gets towed away or moves out of range, keep track of and manage trips and driving habits, and be warned if the speed limit is being violated. There are also other features such as the ability to lock and unlock a vehicle remotely.

In 2019 the services provided to Fiat Connect users continued to be expanded and enhanced both by exploiting new opportunities afforded by technology and by taking user experience and feedback into account as well. Fiat Connect continues to be developed with the aim of constantly improving users' driving experience with the addition of other capabilities such as giving users access to third-party safety and guidance notifications and commercial service offers and ideas for gamifying the entire driving experience.

HUMAN RESOURCES



In a poll of employers conducted by Aon Best Employers, Tofaş was chosen “Turkey’s one of the Best Workplaces”. To qualify for such Aon Best Employer certification, a company is rated on the basis of four different benchmarks: employee engagement, leadership, performance culture, and employer brand.

Tofaş regards human resources who are both experienced and creative as a driving force of its ability to quickly adapt to changing competitive conditions and to be a leader. The foundations of the Tofaş human resources policy is laid on employing qualified people who are compatible with the company’s operations and on providing employees with a highly motivating workplace environment.

As of end-2019, Tofaş had a total of 6,714 people on its payroll, of whom 1,543 were those paid monthly salaries, and 5,171 were those paid hourly wages

In 2019, production activities at Tofaş were temporarily suspended for a total of 36 days for such reasons as scheduled maintenance & repairs, stock planning, and personnel taking annual leave.

NUMBER OF PERSONNEL

Monthly salaried	1,543
Hourly waged	5,171
Total	6,714

BREAKDOWN OF EMPLOYEES BY GENDER

Male (monthly salaried)	1,188
Female (monthly salaried)	355
Male (hourly waged)	4,832
Female (hourly waged)	339

AVERAGE AGE OF EMPLOYEES

Monthly salaried	37
Hourly waged	34
Total	35

HIRING PROCEDURES

In the conduct of its recruitment and hiring processes Tofaş Human Resources makes use of reliable tools and methods that will help identify and select the best candidates. These tools and methods include competency-based/technical interviews, video/telephone interviews, Assessment Center practices, personal inventories, and reference checks. When adding to its candidates’ pool, Tofaş not only makes use of extramural resources but also publishes position vacancies through the internal announcement systems of Koç Group companies. As part of its efforts to spot and manage talent at an earlier stage, the company keeps its employee-candidate pool replenished by means of a variety of short- and long-term traineeship programs. Through its Assessment Center, which is used to select personnel for managerial roles, it conducts digital “Pre-boarding” and “On-boarding” programs that support the adaptation and development of newly-hired employees by bringing them up to speed more quickly.

TOFAŞ ACADEMY

Tofaş Academy provides training & development services for about 15,000 people consisting not only of Tofaş employees but also the employees of its dealership network, Customer Contact Center, and suppliers.

Tofaş Academy defines its mission as “Providing Tofaş and its value-creation chain with a learning experience that is the most appropriate to their ability to do today’s tasks better and prepare themselves for the future” and its vision as “Inspiring the automotive industry and other sectors’ academies with its original techniques, and its pioneering activities.”

With its 265 company-employed instructors, Tofaş Academy is able to take care of some 90% of the company’s training requirements through the utilization of company-owned resources. Programs addressing specific leadership- and behavioral-development needs are also prepared by training specialists and supported by 11 in-house coaches and 95 mentors.

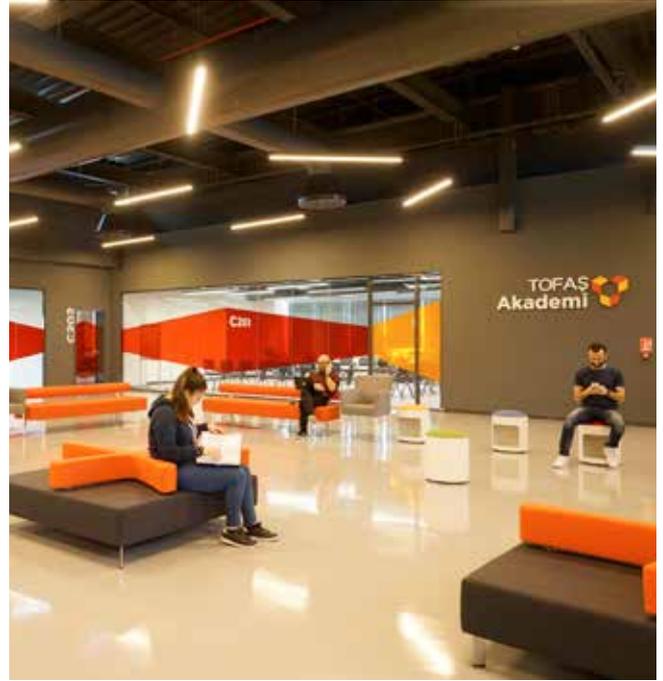
In 2019 Tofaş Academy opened an “Industrial Development School” whose aims are to support the development of employees working in the field and to help them achieve the competency levels that are expected of them. The academy also reorganized the Dojo Work Safety Training Area, a role-playing space in which potential work-related accident situations are simulated, as an in-house center.

“Bir Bilene Sor” (“Ask someone who knows”), a corporate mentoring program that was introduced last year, gives Tofaş employees one-on-one access to mentoring resources. One goal of this program is to promote the spread and transfer of corporate experience and memory. In its first year of operation, 96 mentors and 242 mentees took part in the program.

Stakeholder development

Last year Tofaş Academy continued to expand the scope and range of the technical training that it provides company suppliers through its own resources. Because continual innovation is one of the Tofaş’s strategic priorities, the academy also employs its own resources to support it by providing training, coaching, and counselling support dealing with human-centered design, lean enterprise, and business agility issues.

Tofaş Academy conducted special training & development programs for Tofaş dealership and service network personal through its “Sales School”, “Services & Spare Parts School”, and “Leadership School” all year long in 2019. Last year an integrated digital learning platform was also launched to



In 2019, the innovative learning & development solutions which Tofaş Academy has developed earned the academy a total of seven (3 gold, 2 silver, and 2 bronze) awards in the Stevie Awards for Great Employers and the Stevie International Business Awards programs.

HUMAN RESOURCES

PARTICIPANT	REPORT HEADING	VALUE
Office personnel	Total number of participants (8 hours classroom training)	5,424 people
	Total number of participants (Distance learning)	23,317 people
	Average training time/person	58.9 hours
Field personnel	Total number of participants (8 hours classroom training)	4,151 people
	Total number of participants (Distance learning)	8,322 people
	Average training time/employee	22.9 hours
Business partners	Number of supplier firms	50 firms
	Number of supplier personnel taking part in training	1,273 people
	Total training time	12,593 hours
Dealership personnel	Total number of participants (8 hours classroom training)	2,513 people
	Total number of participants (Distance learning)	20,635 people
	Average training time/person	19.24 hours

address the particular needs of these programs while learning systems were made more agile through the use of the academy's video, virtual classroom, and livecasting resources.

In 2019, the innovative learning & development solutions which Tofaş Academy has developed earned the academy a total of seven (3 gold, 2 silver, and 2 bronze) awards in the Stevie Awards for Great Employers and the Stevie International Business Awards programs.

PERFORMANCE MANAGEMENT SYSTEM

All Tofaş employees are covered by a performance management system that is designed and managed so as to support a corporate culture that focuses on performance and development. The two crucial cornerstones of this system are "Targets" and the "Leadership Principles" referred to as behavioral competencies. Targets are defined at the beginning of each year and are reviewed between an employee and their supervisor during the remainder of the year.

Field personnel technical competency assessment

A system for assessing the technical competency of field personnel was introduced in 2018. This system was designed to respond to the need for a way to keep track of role-based development which would be capable of adapting quickly to Tofaş's constantly evolving and changing processes, which would conform to specified quality standards, and which

could be managed through a single technological platform. The system allows field personnel to keep track of their own progress and to see what competencies they need in order to qualify for other possible positions within the company.

EMPLOYEE BENEFITS

Every white-collar employee who begins working for a Koç Group company joins the Koç Holding Pension & Assistance Fund as part of the hiring process. Blue-collar workers who are hired by Tofaş may elect to sign up for this fund as well. The fund invests contributions deducted from wages and salaries in marketable securities and real estate assets. Such deductions and their earnings are repaid upon retirement or withdrawing from the fund as a lump sum or pension. Both active fund members and pensioners as well as their spouses and dependent children are covered by health insurance and may also be entitled to various rights such as housing acquisition assistance, financial support to cover specified needs, and insurance against such risks as death, incapacitation due to sickness, and partial disablement.

All Tofaş employees are covered by a complementary health insurance scheme whose premiums are paid entirely by the company. Employees may elect to have coverage provided for their spouse and dependent children as well. As of end-2019, 5,635 Tofaş employees along with 5,660 of their family members were benefiting from this coverage.



The 22 clubs and 16 teams that have been voluntarily formed by Tofaş employees organized 235 events in 2019. More than 30 thousand employees and their family members and guests attended these events last year.

To date, 2,171 students have benefited from the scholarship program that Tofaş originally introduced in 2011 for its employees' dependent children. (2019: 285)

In 2016 the company introduced daycare assistance for the dependent children of female employees in order to encourage women's participation in the workplace and to help them better balance their working and home lives. 442 Tofaş employees have benefited from this program (2019: 138)

As an employer, Tofaş is a member of the Turkish Employers' Association of Metal Industries (MESS). The collective bargaining agreement that MESS entered into with the Turkish Metalworkers' Union on 30 January 2018 expired on 31 August 2019.

New contract negotiations between the union and MESS, which commenced on New term contract negotiations dated 23 January 2020 continued until the end of 2019 between Turkish Metal Union and MESS.

As of 31 December 2019, Tofaş had a total severance pay liability of TL 189,685,046.68, all of which amount is covered by provisions that have been set aside. Employees are regularly and systematically provided with such rights and entitlements as may be mandated by laws and regulations.

The fringe benefits provided to the top management within the year ended on 31 December 2019 are explained in the note 27 of the financial report.

SOCIAL ACTIVITIES

The 22 clubs and 16 teams that have been voluntarily formed by Tofaş employees organized 235 events in 2019. More than 30 thousand employees and their family members and guests attended these events last year.

Located at the Tofaş Bursa plant is an employee rec center that contains a restaurant, a cafe, and indoor and outdoor playgrounds that may be used by all Tofaş personnel and their families. Outdoor sports facilities consisting of a synthetic pitch, tennis courts, and a basketball court that were opened last year also give all employees the opportunity to take part in sports. Located within the Mustafa V. Koç Sports Complex at the Bursa plant are a fitness center, basketball courts, and a table tennis area for the use of those who enjoy sports. Tofaş's headquarters in İstanbul houses a fitness center that may be used by all employees.

STRATEGIES FOR A SUSTAINABLE FUTURE

TOFAŞ'S CORPORATE SUSTAINABILITY POLICY IS DEALT WITH WITHIN THE FRAMEWORK OF BUSINESS MODELS THAT TAKE AN INTEGRATED APPROACH AND ARE BASED ON STRATEGIES THAT ARE MINDFUL OF A SUSTAINABLE FUTURE





CORPORATE SUSTAINABILITY POLICY

Tofaş is equally mindful of both sustainability and corporate social responsibility issues when dealing with its stakeholders.

The main pillars of Tofaş's sustainability policy consist of the tenets of the United Nations Global Compact, to which one of its principal shareholders Koç Holding is a signatory as well as Koç Holding's own corporate social responsibility approaches on the one hand and of FCI's sustainability and corporate social responsibility perspective on the other.

A SUSTAINABLE AND VALUE-CREATING MANAGEMENT MODEL

Tofaş's corporate sustainability policy is dealt with within the framework of business models that take an integrated approach and are based on strategies that are mindful of a sustainable future. Tofaş addresses sustainability and social responsibility issues in the context of their social, environmental, and economic dimensions. The company's fundamental priority is to create a management model which can constantly be improved and create value.

The Tofaş Corporate Sustainability Policy is informed by the need to elucidate the company's responsibilities towards all Tofaş stakeholders everywhere and not just those living in the vicinity of the Tofaş plant. Thus is the company equally mindful of both sustainability and corporate social responsibility issues when dealing with its stakeholders.

The environmental, social, and corporate governance aspects of the Tofaş Corporate Sustainability Policy are rooted in the tenets of:

- Effectively managing risks and constantly improving all processes;
- Abiding by "Zero-Accident" principles in matters pertaining to occupational health and safety;
- Improving the company's performance and production efficiency;
- Encouraging active employee participation and fostering open communication;
- Making efficient use of energy while protecting environmental balances and natural resources;
- Increasing stakeholder knowledge and community awareness of climate change issues;
- Adhering to a sustainable environmental management policy that is grounded in national environmental laws and regulations, applicable environmental standards, and the best available technologies for dealing with such matters;
- Ensuring information security and business continuity in the conduct of all operations;
- Complying with the requirements of national and international laws and regulations;
- Managing stakeholder relations transparently and with common sense;
- Ensuring continuity in customer satisfaction;
- Improving suppliers' own sustainability practices;
- Behaving transparently when dealing with the public at large on matters involving sustainable environment policies and practices;
- Making stakeholders aware of the company's corporate social responsibility activities, strategies, objectives, and priorities;
- Making adherence to ethical values, combating corruption, and all other corporate governance principles part of the company's corporate culture.

The company's corporate governance structure, risk management, business ethics and anti-corruption rules, sustainability management, and stakeholder engagement approaches are all matters of concern when dealing with governance and sustainability issues.

Besides efforts aimed at the deployment and ongoing conduct of corporate governance activities within the company, all due attention is also given to ensuring that the company's external stakeholders are likewise involved in achieving the same aims.

In keeping with this, ensuring the sustainability of all of the company's corporate activities when treating all stakeholders equally, disclosing information responsibly, and abiding by corporate governance practices is one of the company's fundamental objectives.

Tofaş's sustainability policy addresses the company's management of social, ethical, and environmental issues. This policy embodies an integrated approach which is rooted in stakeholder participation and which takes stakeholders' expectations and satisfaction into account. The development and continuity of both sustainability and social responsibility attitudes and practices are achieved within the framework of the company's corporate vision and the kinds of corporate activities that the company's stakeholders prefer.

It is a matter of importance to Tofaş that the management, improvement, and oversight of the company's corporate, social, and environmental impact processes and its management, social, and environmental performance be audited and that the results of these audits be shared with all of the company's stakeholders. Having been developed in line with this approach, Tofaş's corporate sustainability policy is overseen at the Board of Directors level, with related issues being assessed and reported on by committees that are responsible to the board itself. The results of these audits are included and published in each year's sustainability report.

CORPORATE SOCIAL RESPONSIBILITY ATTITUDES

Tofaş's sustainability approaches are informed both by its sense of corporate social responsibility and by the company's social impact. Within the framework of these approaches, the company engages in socially-beneficial activities both within the company itself and externally for society at large.

Thus,

- dealing with climate change and emissions,
- product portfolio and product strategies,
- markets and customer satisfaction,
- R&D management, WCM and management standards,
- energy efficiency,
- environmental management systems,
- occupational health and safety,
- workplace environment and talent management,
- supplier chain management,
- dealership and services networks

are all vital to sustainability management.

In all matters falling within the scope of social responsibility, Tofaş is mindful of all currently applicable national and international standards while also engaging in efforts to improve such standards.



Scan the QR code to read more detailed information on Tofaş's corporate sustainability policy.

CORPORATE SOCIAL RESPONSIBILITY



Tofaş focuses on social responsibility projects that will support social progress through a multidimensional approach, will contribute to the national economy, and will create added value for the community. Demonstrating its contributions to society on a variety of levels, Tofaş undertakes long-term projects in the areas of sport, education, and culture & art.

SPORT

Tofaş Sports Club

Backed by many years of investment in infrastructure and the infrastructure-focused team model which it has developed, the Tofaş Sports Club continues to nurture new talent for sports in Turkey.

Tofaş Gymnasium

The Tofaş Basketball team plays its home games at the Nilüfer Tofaş Gymnasium in Bursa. These well-attended encounters also contribute to the social life of Bursa's inhabitants.

Tofaş Next Generation Project

Launched in 2016, the goals of the Tofaş Next Generation Project are to provide all children with an equal opportunity to take part in sports and to foster attitudes and points of view among children that will help them be successful in all aspects of life. The Tofaş Next Generation Project is based on a training and implementation model that focuses on the trainer-family-child triangle in order to foster a generation whose members truly believe that every child should have an equal chance to play basketball.

Since the inauguration of the Tofaş Next Generation Project, about 5,000 children have been reached through fifteen basketball schools set up in different Bursa townships. The little-league basketball teams whose members were chosen from these schools are currently undergoing training at the Mustafa V. Koç Sports Complex. A great many of the members of the Tofaş Sports Club's little-league teams are raised by the Tofaş Next Generation Project.

An e-learning system has also been set up in order to teach local trainers and children's families about the project. Other project activities aimed at fostering basketball culture among the general public include street tournaments as well as sport science and creative drama workshops. As of end-2019, the e-learning system's training videos had racked up about 140 thousand views by children and their trainers and families. In 2019 itself this figure was 40,000.

"50 Hoops" Project

With the launch of its "50 Hoops" project in line with its mission to make Bursa "Basketball City" in 2019, the Tofaş Sports Club immediately set about constructing basketball courts in different parts of the province. Last year a total of 40 courts were opened and it is planned to open another 10 in 2020.

Tofaş Basketball Schools

As of 2019, 3,655 children receive basketball training at 18 Tofaş Basketball Schools operating in 10 cities in order to contribute to the community.



Mustafa V. Koç Sports Complex

The premises and facilities of the Tofaş Sports Club Mustafa V. Koç Sports Complex, which opened its doors in 2016, are available not only to Tofaş personnel but also to Bursa's amateur sports teams and athletes. With 5,800 m² of space, this complex contains three basketball courts, a fitness center, and a fully-equipped sports rehabilitation center capable of providing whatever forms of physical therapy athletes may require.

Tofaş focuses on social responsibility projects that will support social progress through a multidimensional approach, will contribute to the national economy, and will create added value for the community.

EDUCATION

Fiat Laboratories

The "Fiat Laboratory" concept was introduced in 2006 as a component of Koç Holding's "Vocational Education: A Crucial Matter For The Nation" project. The number of students and teachers taking part in the project at these laboratories reached 2,250 last year.

Under this project, labs are set up and installed in schools to support motor-vehicle technology training and education, instructors are provided with training and attend seminars dealing with particular subjects, and students are provided with support in finding traineeship positions as well as jobs after graduation. Under the "Vocational Education: A Crucial Matter For The Nation" project, students who attend classes at Fiat Laboratories and who satisfy requirements are provided with scholarships every year by the Vehbi Koç Foundation.

In 2019, the term of the existing agreement between Tofaş and the education ministry's General Directorate for Vocational and Technical Education concerning Fiat Laboratories was extended again. Under this protocol, Tofaş will continue supporting the project in the five schools where it is being conducted for another three years.

CORPORATE SOCIAL RESPONSIBILITY

Tofaş Science High School

Located in the Demirtaş Organized Industrial Zone in the Özlüce district of Bursa's Nilüfer township, instruction at Tofaş Science High School began in the 2014-2015 academic year.

Initiated with Tofaş support at Tofaş Science High School, the "Innovation Workshop" aims to support the instruction of well-educated young people who will shape the future of automotive and engineering field in Turkey and serve as its leaders. Having identified it as a "Project That Inspires", the Ministry of Education has decided to expand the Innovation Workshop program to embrace all science highschools.

"İyiye İşaret"

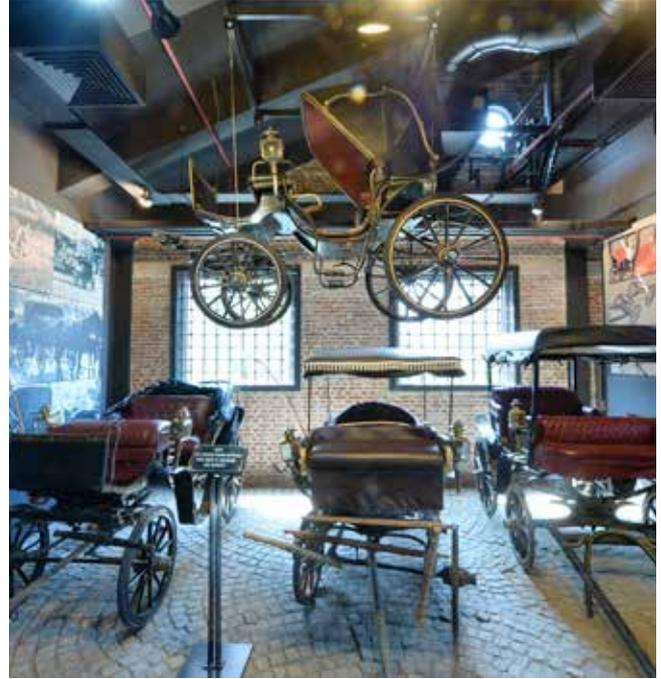
In 2019 Fiat launched its "İyiye İşaret" digital platform to make it easier for Turkish speakers who have special hearing needs to communicate. Located at engelsizhareket.fiat.com.tr, the "İyiye İşaret" platform provides anyone in Turkey with hearing disabilities with freely-available visual, sign language and subject expression video resources that include the explanation of words and usage of the words in sentence. The goal of this platform is to help people with hearing disabilities to live more normal everyday lives by better understanding what they read and by better expressing themselves through writing. Focusing on 230 words at the outset, the number of words dealt with by the platform was soon increased to 350. Work is currently in progress to gradually bring the number to a thousand or more.

CULTURE & ART

Tofaş Museum of Cars and Anatolian Carriages and Tofaş Art Gallery

Located in Bursa's Umurbey district, the Tofaş Museum of Cars and Anatolian Carriages is a private museum focusing on the Anatolian transport heritage. A former silk-weaving mill that used to be here was restored and converted for use as a museum by Tofaş. On display at the museum is a historical panorama of the history of human transport in Anatolia beginning with a wheel that is 2,600 years old and extending to the present day with examples of Tofaş-built motor vehicles. The museum opened its doors in 2002 and has received about 800 thousand visitors since then

Located within the same grounds as the museum is the Tofaş Art Gallery housed in the Umurbey Hammam, the original construction of which dates to 1430. To date the gallery has hosted six exhibitions. "The Poise Of The Steelyard: Scales, Weights & Measuring Instruments", a show with past and present-day examples of such equipment, attracted more than 180 thousand visitors as of end-2019.



Pamukkale Hierapolis archaeological excavations

Since 2005 Tofaş has been sponsoring archaeological excavations at Hierapolis, the extensive ruins of one of the five biggest ancient cities in Turkey. Coterminous with the Pamukkale thermal zone, both Hierapolis and Pamukkale were declared UNESCO World Heritage sites in 1988. Excavation work, which is being overseen by the Ministry of Culture and Tourism and the Denizli governor's office, continued during the 2019 season with Tofaş's support. The excavations are being carried out by an international team of about seventy archaeologists, architects, restorers, conservators, and other experts mainly from Italy and Turkey.

Among the other significant Hierapolitan remains that have been unearthed are two necropolises, baths, a basilica, a martyrium, the Frontinus Gate, a gymnasium, an Apollo temple, and the so-called Pluto's Gate (Plutonium), a shrine sacred to the ancient god of the underworld, Pluto.

ENVIRONMENT



Tofaş's environmental vision is to possess a World-Class Environment Management System that makes use of proactive and efficient management tools. In order to achieve its "Zero Waste/Zero Loss" goal, the company's maxim is "If you don't cause pollution in the first place, then there's nothing that you have to clean up."

Regarding environmental protection as an important element of its social responsibility, Tofaş focuses on effectively managing and, as much as possible, on minimizing both the direct and the indirect adverse environmental impact of all aspects of its value-creation chain.

ENVIRONMENT & ENERGY POLICY

In keeping with its principle of sustainable development in its product, manufacturing, and service processes, Tofaş employs and develops lean and proactive environmental and energy management systems.

In line with this, Tofaş:

- Regards having to dispose waste of any kind as a resource loss and therefore develops methods that prevents waste from occurring in the first place;
- Constantly improves its energy performance both through energy-efficiency process design and in the conduct of its product and service procurements;
- Ensures that it has access to all the information, expertise, and economic resources that it needs to regularly review and achieve its environmental and energy-related goals and objectives;
- Assessing risks and opportunities, plans and takes sustainability-focused strategic action;
- Develops innovative product and process solutions aimed at combatting climate change;
- Believes that it is fundamentally essential to comply with the requirements of all laws and regulations to which it is subject as well as with internationally-accepted standards in its processes;
- Seeks to minimize energy and water consumption, waste creation, and water and air emissions by means of awareness training for employees, subcontractors, dealers, and suppliers and by making use of continual-improvement processes and the best existing sectoral techniques and practices;
- Produces automobiles, commercial vehicles, and spare parts which have less of an environmental impact and which incorporate more recyclable materials.

Tofaş's environmental vision is to possess a World-Class Environment Management System that makes use of proactive and efficient management tools. In order to achieve its "Zero Waste/Zero Loss" goal, the company's maxim is "If you don't cause pollution in the first place, then there's nothing that you have to clean up."

ENVIRONMENT



One consequence of Tofaş's Environment & Energy Policy is that it seeks both to reduce waste at source and to recover and recycle as much as possible of any waste that may be generated. Thus for example 100% of the industrial waste resulting from its manufacturing processes is either recovered or else used as raw material and energy inputs in the cement industry, thereby helping the company to achieve its "Zero Waste Disposal" goal.

Supporting the transition to a low-carbon economy through its energy-efficiency efforts, Tofaş is also a corporate member of the Climate Platform. The hundreds of energy efficiency projects which the company has undertaken are steadily reducing the energy density of its operations.

When new investments are to be undertaken or changes are to be made in machinery and equipment, environmental-impact and energy-efficiency procedures are standardized both by initiating a Kanban (lean/just-in-time manufacturing) process and by adhering to best-available-technology (BAT) practices.

Environmental audits conducted both by authorities and by stakeholders in 2019 ascertained that Tofaş was in full compliance with all requirements.

SUSTAINABLE MANUFACTURING ATTITUDES

Having adopted sustainable-manufacturing principles in the conduct of its operations, Tofaş achieves natural resource use efficiency by implementing the "5R" (Refuse, Reduce, Reuse, Recycle, Recover) hierarchy in all of its production processes.

In 2019 Tofaş undertook 116 new energy efficiency projects implementing WCM (World Class Manufacturing) energy management methodologies and techniques. With the inclusion of other projects that were launched in the last quarter of 2018, the total number of such projects having an impact on the company's operations was 158 in 2019. Thanks to these projects, 48,975 GJ of energy were conserved and CO₂ emissions were reduced by 3,959 tons.

As a result of a comprehensive assessment carried out at Borsa İstanbul in 2019 by EIRIS, one of the responsible investment industry's leading research providers, Tofaş remained one of 50 firms in Turkey whose shares qualify for inclusion in the BIST Sustainability Index. In 2019 Tofaş also submitted its responses to the Carbon Disclosure Project again and, it received a "B (Management)" rating in the CDP Water Program.

In order to keep all of its stakeholders informed about its targets on environment and sustainability issues, Tofaş transparently publishes the results of its efforts in these areas in sustainability reports and on its corporate website.

GREEN PRODUCTS

Environment-focused projects such as vehicle electrification, alternative fuels, eco-friendly materials, vehicle weight reduction, and recycling take the front stage among Tofaş's technology research activities. Some of these projects were concerned with issues whose results are expected to be incorporated into existing products or new models in the years ahead.



Scan the QR code for the 2018 Sustainability Report.

CLIMATE CHANGE

It is Tofaş's principle to increase environment- and climate change-responsibility awareness throughout its value-creation chain by informing and educating suppliers, dealers, and customers. Tofaş makes a detailed effort to develop vehicles whose emissions are lower and/or which use alternative fuels in order to satisfy stakeholders' expectations on such issues

Scientists are generally in agreement that the problem of climate change today is largely the result of greenhouse gas emissions generated by human beings. Efforts are now being made throughout the world to create legal frameworks and control mechanisms that will allow measures to be taken so that this situation can be dealt with. The automotive industry for its own part has been actively involving itself in such efforts by identifying what needs to be done to resolve the problem not only at the level of industry-wide organizations but also, out of their own sense of responsibility, by individual producers.

It is Tofaş's principle to increase environment- and climate change-responsibility awareness throughout its value-creation chain by informing and educating suppliers, dealers, and customers. Tofaş makes a detailed effort to develop vehicles whose emissions are lower and/or which use alternative fuels in order to satisfy stakeholders' expectations on such issues.

At the same time Tofaş also sees climate change as an issue that has statutory and regulatory dimensions (such as emission limits), physical and operational dimensions (such as radical changes in weather conditions), and financial dimensions (such as emissions-trading). The company formulates early proactive corporate risk management responses to the sorts of risks that all these dimensions might pose.

ONGOING ACTIVITIES

Tofaş engages in a variety of efforts in order firstly to satisfy its stakeholders' expectations with respect to combating climate change and secondly to fulfill all of its responsibilities to do so.

To this end:

- As one of FCA's most important R&D and manufacturing hubs and in line with FCA's product strategies, Tofaş supports efforts to improve the efficiency of the conventional motor vehicles that it is already making, to increase the use of alternative-fuel systems such as natural gas and biofuels, and to develop electrical and hybrid vehicles;
- Tofaş improves the energy efficiency of its manufacturing operations and it reduces their greenhouse gas emissions;
- Tofaş engages in efforts to make its logistical processes more efficient;
- Tofaş strives to increase environment- and climate change-responsibility awareness throughout its value-creation chain by informing and educating suppliers, dealers, and customers.



Scan the QR code for the 2018 Sustainability Report's Climate Change section.

OCCUPATIONAL HEALTH & SAFETY



Occupational health and safety (OHS) ranks the first among the elements of World Class Manufacturing methodology, since it is the most important one. It is also an area in many aspects of which the Tofaş plant serves as a reference model within the FCA community. The plant is frequently visited by firms wishing to observe Tofaş's OHS operations and practices in action. Adhering to a proactive and lean WCM-based approach to occupational health and safety issues, Tofaş seeks to protect everyone coming into contact with its operations from risks that could be detrimental to their health or safety by fostering a sustainable OHS culture and by creating environments that are intrinsically safe.

TARGET: ZERO ACCIDENTS AND OCCUPATIONAL DISEASES

Tofaş strives to maximize OHS awareness not just among its own employees but also among its trainees, visitors, suppliers, and contractors. To this end, Tofaş commits itself to:

- Fulfilling all of its regulatory and other obligations with respect to OHS issues;
- Abiding by the principle that making improvements in OHS performance is a responsibility shared by all personnel;
- Setting targets for participation in risk-assessment and risk-mitigation activities at every level;
- Achieving a sustainable "Zero Accident" target by constantly improving the company's occupational health and safety culture.

Tofaş seeks to achieve zero-level values of accidents and occupational diseases by means of the Occupational Health & Safety System that it implements.

During 2019, 34,575 hours of occupational health and safety training was provided to 4,795 employees.

OHS ranks the first among the elements of World Class Manufacturing methodology, since it is the most important one. It is also an area in many aspects of which the Tofaş plant serves as a reference model within the FCA community.

QUALITY MANAGEMENT



Tofaş's World Class Manufacturing score was raised from 77 in 2018 to 81 in 2019. This achievement puts the company out in front of any other automotives plant in where the WCM methodology is currently being employed.

Seeking to directly understand its customers' quality expectations, Tofaş strives to raise the quality of its manufacturing and service processes and to maximize its quality competitiveness throughout its value-creation chain. The company's quality management system is regularly updated and improved in light of changes in customers' expectations.

Possessing a quality culture that is centered on customer satisfaction, Tofaş encourages its employees to take part in and to improve quality management as a matter of principle. This approach gives the company a significant competitive edge as a world-class manufacturer.

WORLD CLASS MANUFACTURING

World Class Manufacturing (WCM) is a constellation of methodologies and techniques that can be used to systematically improve and develop one's manufacturing competitive strengths. The WCM program, which was launched in 2006 with the aim of bringing manufacturing operations within FCA up to world-class standards, is now in effect at more than 200 FCA plants and about 400 FCA suppliers around the world. WCM's focus on such issues as workplace safety, quality, cost, logistics, and environmental wellbeing, is rooted in the "Concept of Zero": zero workplace and environmental accidents, zero manufacturing defects, zero production losses, and so on. The WCM precept "Do it right the first time" is proactively adhered to in all processes.

Having introduced the WCM methodology employed in FCA plants around the world in its own plant in 2006, in 2013 Tofaş became one of the first three FCA operations to be awarded "Gold" status. Continuing to push its production standards to even higher levels since then, in 2019 the company's WCM score was increased from 77 to 81, thereby globally positioning Tofaş ahead of any other automotives plant and in second place among any plant in any sector where WCM is being adhered to. Focusing on constantly increasing production standards in the course of its WCM journey, Tofaş's systematic approach and involvement of its employees in the process has enabled the company to significantly improve its workplace accident, external quality-control, productivity, and mechanical downtime performance.

SUPPLY CHAIN MANAGEMENT



In line with these aims and recognizing that suppliers and their personnel are among the most important elements of its value-creation chain, Tofaş helps its suppliers constantly develop their capabilities, achieve organizational excellence, and enhance their business success and productivity.

In the conduct of its supply chain management operations, Tofaş seeks to safeguard its competitive strength, to reduce its production and procurement costs, to achieve the best possible quality and delivery performance in goods and services procurements, and to ensure the sustainability of all of these processes. In line with these aims and recognizing that suppliers and their personnel are among the most important elements of its value-creation chain, Tofaş helps its suppliers constantly develop their capabilities, achieve organizational excellence, and enhance their business success and productivity.

Tofaş's procurements fall under three main headings defined as: Direct Materials, Spare Parts, Services & Industrial Procurement. In 2019 Tofaş's total procurements budget amounted to EUR 2.4 billion in value. In the conduct of its procurements processes, Tofaş works with more than 2,500 suppliers, making purchases from 152 direct materials suppliers based in fourteen of Turkey's cities.

CONTRIBUTING TO THE GROWTH AND DEVELOPMENT OF DOMESTIC SUBMANUFACTURING

Since the day it was founded, Tofaş has given great importance to localizing its procurements and reducing its dependence on imports by contributing substantially to the development of a home-grown automotive supply sector.

Tofaş today procures an average of 75% of its components other than engines and transmissions from domestic suppliers.

Having made reducing its dependency on non-domestic sources and increasing localized content two of its medium- and long-term strategies, Tofaş works with suppliers especially to localize the production and procurement of electrical, electronic, and mechatronic components. Such efforts not only contribute to Tofaş's own development but also support suppliers (whom Tofaş recognizes as its business partners) in their efforts to compete and succeed at the global level.

AN EXTENSIVE AND COMPLEX SUPPLY CHAIN

Tofaş works with an extensive and complex supply chain from which, in the main, it procures preformed sheet metal components, forged & cast machined components, mechanical & electromechanical components, electrical installments, molded plastic and rubber components, seats, door panels, vehicle glass, glove compartments, bumpers, mufflers, chemicals, interior & exterior trim, and connectors. In order to ensure and support the continuity of its manufacturing operations, Tofaş also engages in a broad



range of service and other procurements such as capital goods and related services, contractor services, maintenance & repair services, and training & consultancy services. Owing to the importance of supply-chain continuity, a multifaceted risk-management approach is prioritized in the conduct of purchasing processes and of supplier relations.

IMPROVEMENTS IN PROCUREMENT PROCESSES

Whenever Tofaş considers the procurements aspects of its new projects, it gives particular attention to acquiring the latest technological abilities for the Turkish automotive industry on the one hand and to boosting its own competitive strength on the other. In line with this, Tofaş encourages international firms that are global manufacturers of automotive components to invest in Turkey or to enter into joint ventures with local suppliers.

Efforts continue to be made to amplify the company's competitive strength by employing state-of-the-art procurement and business-process methods and by streamlining operations through digitalization. In line with the company's Connected supplier/Digital transformation strategy, efforts were also made to create synergies between and among domestic technology suppliers and startups on the one hand and Tofaş's suppliers on the other.

SUPPLIER DEVELOPMENT

In the conduct of all of its procurements operations, Tofaş focuses on establishing and maintaining business-partner relationships while making efforts to help its suppliers to enhance their performance in many different areas such as product design, organizational and technical improvements, quality, cost-improvement, physical and financial risk mitigation, manufacturing process improvement, collective procurement, and sustainability. Tofaş's primary goal is to create a proactive and autonomous procurements process that completely replaces previously-existing ways of doing business that are merely reactive and focused on "problem-fixing".

Since 2009, Tofaş has been encouraging its suppliers to take part in the World Class Supplier (WCS) program, which involves employing WCM methods in the conduct of their own operations. As of end-2019 the company was already working with 13 suppliers under this program and was helping another 15 achieve compliance. In the list of FCA global suppliers who have achieved WCM Bronze status, there are four Turkish suppliers of Tofaş.

CUSTOMER SATISFACTION POLICY

The efforts of the Tofaş Customer Care Center to oversee the digital transformation of the company’s customer satisfaction management were acknowledged by Contact Center World with two of its prestigious international awards: “Best Contact Center” and “Best Customer Service” in Europe, the Middle East, and Africa.

TRANSPARENCY

Detailed information about Tofaş is available to all stakeholders 24 hours a day seven days a week via its websites and the Tofaş Customer Care Center. Any questions, requests, or complaints that stakeholders may have may be forwarded to the company through the same channels.

ACCESSIBILITY

Please direct all queries as appropriate to:

- Fiat Care Center: 444 22 55
www.fiat.com.tr
- Alfa Romeo and Lancia Care Center: 444 19 10
www.alfaromeo.com.tr
www.lancia.com.tr
- Jeep Care Center: 444 53 37
www.jeep.com.tr

RESPONSIVENESS

All requests for information submitted via company websites and attention centers are responded to within specified periods of time.

OBJECTIVITY

All questions, requests, and complaints are addressed and responded to fairly and without prejudice.

FEES

No fees are charge of anyone who submits questions, requests, or complaints.

CONFIDENTIALITY

All personal information that is submitted to Tofaş is treated with the strictest confidence and is never revealed to any outside party.

CUSTOMER FOCUS

Tofaş takes pains to resolve customers’ problems, to satisfy customers’ needs, and to protect customers’ rights under all conditions within the framework of company policies and the requirements of law.

ACCOUNTABILITY

All questions, requests, and complaints that are received are recorded upon arrival. When they are responded to, a full account is given of all decisions and actions that were taken along with the justifications for them.

CONTINUOUS IMPROVEMENT

All communications received from Tofaş stakeholders are used proactively as feedback for making improvements in the company’s business processes, products, and services.

TOFAŞ CODE OF ETHICS AND ANTI-CORRUPTION POLICY

Tofaş's commitment to the advanced business ethics that are part of the bedrock of its corporate culture inform all of the company's activities and operations. This means that ethical behavior of the highest sort is an essential priority and responsibility of every Tofaş employee. However not only Tofaş employees but also Tofaş dealers, suppliers and business partners, and all other stakeholders with whom the company actively engages are likewise expected to abide by the company's ethical guidelines.

The Tofaş Board of Ethics is responsible for the implementation of the Tofaş Code of Ethics and for overseeing compliance with its rules.

Tofaş adheres to a no-tolerance approach when dealing with matters involving bribery and corruption. The company is committed to undertaking its activities fairly and honestly in line with legal and ethical guidelines. In all of the policies and procedures that it formulates, Tofaş strives to be in full compliance with the requirements of laws and regulations, with ethical and professional standards, and with universally-recognized principles. Within this scope, risks of bribery and corruption are identified and actions are taken to reduce them. Compliance with company ethical guidelines is supported by means of in-house group training sessions, regular ethical guideline announcements, and online training resources.

The 10th principle titled "Anti-Corruption" of the United Nations Global Compact to which Koç Holding, one of Tofaş's major stockholders, is signatory, is an indispensable part of Tofaş's approach to business ethics and anti-corruption.

All forms of discrimination be they based on language, race, gender, political affiliation, religious belief, or similar considerations are prohibited in the conduct of business and workplace relationships at Tofaş. Work agreements between the company and its employees may not incorporate any terms or conditions which, directly or indirectly, would subject an employee to prejudicial treatment on the grounds of gender or pregnancy at the time the agreement is entered into, while it is in effect, or when it is terminated except in cases where job-related risks, employee safety, or the requirements of law dictate otherwise. The principle of "Equal Pay For Equal Work" applies to everyone and no employee may be paid more or less based on their gender. All hiring, assignment, and promotion decisions must be based on objective performance criteria and never on such considerations as language, religion, gender, race, or the like. Tofaş condones neither the employment of children nor any form of forced or compulsory labor.

STRONG CORPORATE GOVERNANCE

TOFAŞ CONDUCTS ITS CORPORATE GOVERNANCE PRACTICES MINDFUL OF THE PRINCIPLES OF TRANSPARENCY, ACCOUNTABILITY, FAIRNESS, AND RESPONSIBILITY AND WITH AN EYE ON THEIR SUSTAINABILITY.

TOFAŞ TÜRK OTO



INFORMATION ON THE CAPITAL STRUCTURE AND SHAREHOLDING OF THE COMPANY

The Company's capital, shareholders who own more than 10% of the capital:

As of 31 December 2019, the Company's recorded equity ceiling was TL 1 billion, and its issued (paid) capital was TL 500 million.

SHAREHOLDER	SHARE GROUP	SHARE AMOUNT (TL)	VOTING RIGHT	SHARE RATIO (%)
FCA Italy S.p.A.	D	189,279,856.87	18,927,985,687	37.8560
Koç Holding A.Ş.	A	187,938,121.26	18,793,812,126	37.5876
Temel Tic. ve Yat. A.Ş.	A	175,693.44	17,569,344	0.0351
Koç Family	A	1,166,042.17	116,604,217	0.2333
Others	E	121,440,286.26	12,144,028,626	24.2880
Total		500,000,000.00	50,000,000,000	100

There was no change in the Company's capital and shareholding structure in the period 1 January 2019 – 31 December 2019. The last time the Company made a bonus issue increase at the rate of 11.111111% from internal sources to a total of TL 50,000,000 was in 2005, and in the following years, including 2019, there was no capital increase. Information on Capital increases since the foundation of our company can be found on the website www.tofas.com.tr.

Tofaş is listed in BIST-30 and BIST-100 Indexes as well as the Corporate Governance Index and Sustainability Index.

Each shareholder has one voting right at the General Assembly Meetings and there is no privileged vote. However, Board Members and Auditors are elected among the nominees who will be nominated by Group A and D Privileged Shareholders. (Article 10 of the Company Articles of Association) As per the Company's shareholding structure and as specified in Company's Articles of Association, only A and D Group shareholders have the privilege of nominating the Members of the Board of Directors and Members of

Auditing Board and one of the nominees for each of these committees should meet the requirements for independence as set forth by the regulations by Capital Markets Board. There is no privilege regarding allocation of dividends (as per Article 18 of Articles of Association). Detailed information and explanations relating to these matters are contained in more detail in the Corporate Governance Principles Compliance Report within the annual report.

In addition, there was no lawsuit which may affect the finances and activities of the Company and there was no administrative or financial sanction imposed on the Company or the members of its managing bodies due to breach of legislative provisions. There was no capital risk and it is concluded that the activities can continue. There are no legislative changes that could significantly affect the Company's operations.

There was no capital risk, and it was concluded that the capital is adequate for continuation of operations, as specified also in the related Committee report. Necessary additional actions are being taken to improve the financial structure of the Company.

No material events took place after the end of the operating period, which might affect the rights of shareholders, creditors and other related persons and organizations, and there is no additional information that the management deems fit in relation to other matters.

The shareholders can access corporate, financial and stock exchange data regarding the Company under the “Investor Relations” section at www.tofas.com.tr website and access information on other issues regarding the Company by sending an e-mail to borsa@tof.com.tr.

Amendments to the Articles of Association During the Reporting Period

In 2019, there were no amendments to the Articles of Association.

The Company’s Articles of Association are also available for review on our Company’s website at www.tofas.com.tr.

Dividends Distributed in the Last Three Years and Ratios:

In accordance with the Turkish Commercial Code, the Capital Market Legislation, provisions of the Articles of Association, and the Profit Distribution Policy,

- cash dividends in the total amount of TL 880,000,000.- corresponding to 176% (176% gross, 149.60% net) of the 2018 profit were paid out during 2019 as of 19 March 2019.

- cash dividends in the total amount of TL 800,000,000.- corresponding to 160% (160% gross, 136% net) of the 2017 profit were paid out during 2018 as of 21 March 2018.
- cash dividends in the total amount of TL 350,000,000.- corresponding to 70% (70% gross, 59.50% net) of the 2016 profit were paid out during 2017, starting from 3 April 2017.

A detailed table of allocation of dividends in the mentioned and previous years is accessible at www.tofas.com.tr for review.

Subsidiaries and Affiliated Companies

As of 31 December 2019, our Company holds a share of:

- 99.99% (TL 44,999,996) in the nominal capital (TL 45,000,000) of its İstanbul-based affiliated company, Koç Fiat Kredi Finansman A.Ş. (KFK),
- 100% (TL 5,500,000) in the nominal capital (TL 5,500,000) of its İstanbul-based affiliated company, Fer Mas Oto Ticaret A.Ş. (Fer Mas).

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE REPORT

SECTION I: DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

In 2019, full compliance was achieved with the applicable compulsory principles of the Corporate Governance Communiqué II-17.1 while compliance was achieved with most of the noncompulsory principles.

Although the aim is to achieve full compliance also with the noncompulsory Corporate Governance Principles, full compliance has not yet achieved due to reasons such as; difficulties in practicing some of the principles, continuing evaluations in our country and on international platform about complying with some of the principles, some of the principles not fully matching with the existing structure of the market and our Company. The process regarding the principles, which have not yet been adopted, is in progress and they are scheduled for adoption following the completion of managerial, legal, operational and technical infrastructure works in a manner to assist the Company in effective management. Comprehensive activities carried out within our company within the scope of the Corporate Governance Principles, and principles that was not complied with in relevant departments and conflicts of interest (if any) arising for this reason, are explained below.

In 2019, Corporate Governance activities were carried out particularly to achieve compliance with the Capital Markets Law that includes the new regulations of Capital Markets Board of Turkey (CMB) about Corporate Governance Principles, and with the Communiqués based on this Law. Within this context, our Board of Directors and our Committees were formed in line with the requirements in the Corporate Governance Communiqué and the Board of Directors' Committees so set up pursue their activities efficiently.

Board of Directors' and executive managers' remuneration policy was determined and presented for the shareholders' information at the General Assembly. With the informative document prepared for the General Assembly; (i) General Assembly information (that must be announced according to the principles) such as privileged shares, rights to vote, organizational changes, (ii) résumés of the candidate Members of the Board of Directors, (iii) Board of Directors' and executive managers' remuneration policy, (iv) necessary reports that must be prepared and necessary information that must be announced regarding the related party transactions, were presented for the information of our shareholders and

investors 3 weeks in prior the General Assembly. Furthermore, our Company's corporate website and Annual Report were reviewed, necessary revisions were made in order to achieve full compliance with the principles.

In the upcoming period, developments in the legislation and practices will be taken into account and necessary activities will be carried out in order to achieve compliance with the Principles.

Within the scope of the Compulsory Corporate Governance Principles, in the context of exceptions in practicing the Corporate Governance principles – as per the first paragraph of the 6th Article of the Corporate Governance Communiqué; our Company's status is a "joint venture" (JV) composed of "two juridical persons" who "equally control the management with an agreement" while the number of the independent members of the Board of Directors is "two" in line with this regulation. With the CMB decision n.5/129 (date: 16.02.2012) approval was received for that it was sufficient to determine the number of the independent members of the Board of Directors as 2 (two).

Furthermore; as per Article 5 paragraph 6 of the said Communiqué, nominees for independent membership on the Board of Directors were determined in conformity with the requirement that reads "It is sufficient that [...the principle.....] is met by at least half of the independent members " with respect to the criterion of "being considered a resident in Turkey in accordance with the Income Tax Law" as specified in paragraph (d) of the first clause of the compulsory principle numbered 4.3.6, and necessary permission has been obtained from the CMB. Along this line, the necessary consent has been received for the Board of Directors' independent member nominees with the CMB decision no. 29833736-110.07.07-E.1225 and dated 02.02.2018, and the independent members were elected at the General Assembly as at 13 March 2019 for a one-year term of office.

The implementation of Corporate Governance Principles has a decisive and ever-increasing importance for the Company as a result of the developments in Capital Markets and as a dynamic process. The Company continues its efforts to adopt corporate governance as a corporate culture by adopting the Corporate Governance Principles issued by the CMB, making the necessary improvements and regulations based on current conditions on areas that require adoption and making the necessary changes. We integrate sustainability into our corporate governance practices in accordance with

the principles of transparency, accountability, fairness and responsibility, as described in the Corporate Governance Communiqué.

Following suit of previous years, our activities were meticulously carried on in 2019 by keeping a close eye on the changes made in the legislation or capital market regulations, and in line with our Company's corporate governance activities.

Within the framework of our corporate governance practices, our corporate governance rating was revised once periodically by the corporate governance rating firm SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. Within the scope of the Corporate Governance Rating Report issued on 1 November 2019 upon review of 2019 operations, our rating score was upgraded once again and declared as 9.26 (92.58). The rating report can be reviewed on our Company website.

Due to reasons also mentioned above, full compliance has not yet been achieved with the non-compulsory Corporate Governance Principles specified below. Detailed information regarding the issue is presented in the relevant sections below. Our Company is not exposed to any conflicts of interest by reason of failure to fully comply with the non-compulsory principles.

Regarding principle no. 1.4.2, privileges listed below in section 2.4 were specified in our Articles of Association.

Regarding principle no. 1.5.2; our Articles of Association do not stipulate minority rights for those who hold less than one twentieth of the capital, and thus rights were provided within the framework of the general regulations in the legislation.

Regarding principle no. 4.3.9; there is no target ratio and time set for the ratio of female members on the Board of Directors, and evaluation of the matter continues. Detailed information regarding the issue is given in section 5.1. below.

Regarding principle no. 4.4.5; the Company has in place long-standing and consistently implemented processes related to how the Board of Directors meetings will be held; however, there is no internal written regulation specific to this matter.

Regarding principle no. 4.4.7, there are no restrictions for the members of the Board of Directors to assume duties outside the company as stated in section 5.1. below.

As per principle no. 4.5.5., board members are assigned to committees based on their knowledge and experience levels and in accordance with applicable regulations. Some board members serve on multiple committees. Board members, who serve on multiple committees, are responsible for ensuring communication and cooperation between committees that oversee areas related to each other.

Regarding principle no. 4.6.1; there has been no specific initiative aimed at performance evaluation at the Board of Directors level.

Regarding principle n. 4.6.5: remuneration of the Members of the Board of Directors and managers who have administrative responsibilities is disclosed collectively in parallel to the common practice in the footnotes of our financial statements and at the General Assembly meetings.

Our Company has espoused a sustainable approach to governance by ensuring a broad-based establishment of the corporate governance concept as a dynamic process and corporate culture, in line with the implementation of Corporate Governance Principles. Additionally, in case of a significant change during the period, such change will be included in the interim activity report.

2019 Corporate Governance Compliance Report (CRF) and Corporate Governance Information Form (CGIF) of Tofaş Türk Otomobil Fabrikası A.Ş., which is prepared according to the new reporting formats as per the CMB decision no. 2/49 dated 10 January 2019 is attached to the annual report and it will also be separately disclosed on the Public Disclosure Platform (KAP) within due time deemed appropriate by the CMB.

SECTION II- SHAREHOLDERS

2.1 Investor Relations Department

Our Company's Financial Director, and the Financial Risk Management and Investor Relations Unit, Accounting Unit and Legal Counseling Unit, organized under the Financial Directorate, are assigned with the performance of the duties stipulated under Article 11 of the CMB's Corporate Governance Communiqué no. II-17.1.

The functions of the Investor Relations Unit are performed by Mr. Mehmet Aydın Açıyüz, Financial Risk and Investor Relations Manager, and Mr. Devran Aydın, Accounting Manager, who report to Mr. Fabrizio Renzi, CFO. Mr. Devran Aydın, Accounting Manager, holds the licenses that are required by the related Communiqué.

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE REPORT

Along this line, as of 2019, the duties set forth under Article 11 of the Corporate Governance Communiqué are being fulfilled by Mr. Mehmet Aydın Ağyüz and Devran Aydın under the supervision of the Company's Financial Director, Mr. Fabrizio Renzi. In the Corporate Governance Committee, which functions within the frame of the operating principles set out by our Board of Directors, Mr. Fabrizio Renzi serves in addition to the existing members. Working under the title Accounting Manager and Investor Relations Executive in the Department, Mr. Devran Aydın holds Capital Markets Advanced Level License (Capital Market Activities Level 3 Certificate) and Corporate Governance Rating License.

Within the scope of the considerations stipulated in Article 11 of the CMB Corporate Governance Communiqué, Investor Relations Department Report was prepared regarding the activities carried out in 2019, and was presented to the Board of Directors as of 04 February 2020 after it was discussed in the Corporate Governance Committee.

Within this framework; the Risk Management and Investor Relations Unit held 288 meetings with investors and analysts, 4 webcasts, 57 teleconferences about our Company. 4 overseas investor conferences and 2 domestic investor conferences were attended and existing and potential investors were contacted and informed about the latest developments. As of the end of 2019, 79% of the Company's publicly-floated shares were being held by foreign investors.

The General Assembly meeting, which was organized during the reporting period within the frame of shareholder relations, was convened as per the legislation in force via Electronic General Meeting System (e-GEM). The meeting, announcements and records regarding the meeting were organized in conformity with the capital market regulations, the Company's Articles of Association and other internal regulations.

Relevant procedures concerning the activities of the Committees under the Board of Directors are monitored and records are kept. The issues including public disclosures, responds to shareholders' and investors' information requests are handled and monitored, and material event disclosures are made through the Company's corporate website, such portals as e-Company and e-Governance, and PDP within the scope of the Capital Market legislation.

In addition to the above, as stated in the Declaration of Compliance section above, the Company's corporate governance rating was revised upwards to 9.26 (92.58%) upon the annual periodic review performed.

During the reporting period, 22 material event disclosures were released; disclosures of an important nature for the investors, along with their translations into the English language, were posted on the corporate website as well as on PDP. In 2019, 240 queries were received from shareholders in writing or via telephone, and information continued to be provided as necessary. While queries were mostly concerned with financial statements, sales performance, projections, there were requests for annual reports and sustainability reports. Moreover, necessary responses were given to information requests regarding capital market regulations.

2.2. Dividend Rights

There is no privilege regarding participation in Company profit or allocation of dividends. Dividends are distributed equally regardless of the whole current shares or their dates of issuance and acquisition.

Our Company's Dividend Policy is available in the Company's Annual Report and on the corporate website; also, the Dividend Policy covering matters related to dividend distribution has been laid down for the approval of the General Assembly, and the General Assembly Meeting Minutes incorporate the fact that it has been ratified. Accordingly, profit distribution is made as per the provisions of the Turkish Commercial Code, Capital Market regulations, Tax Regulations, other applicable legislation and the article concerning profit distribution of the Articles of Association. A balanced and consistent policy between the shareholders' and Company's interests is pursued in profit distribution in line with the Corporate Governance Principles; in principle, the net distributable profit for the period is calculated as per the Capital Market regulations by taking into account the market projections, the Company's long-term strategies, investment and financing policies, profitability and cash status, and the maximum amount of cash dividends and/or bonus shares are distributed to our shareholders, so long as it can be covered from our financial records, and to the extent permitted by the applicable regulations and financial means. Furthermore, within the scope of this Profit Distribution Policy, the aim is to make profit distribution within maximum one month after the General Assembly meeting while the profit distribution

date is decided by the General Assembly. The General Assembly or the Board of Directors, in case authorized by the General Assembly, may decide to distribute dividends with installments in conformity with the Capital Market Regulations.

According to the Articles of Association of the Company; the Board of Directors, provided that it is authorized by the General Assembly and it complies with the Capital Markets Regulations, may make advanced dividend payment.

SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY:

3.1. Annual Report

Board of Directors prepares the annual and interim Annual Reports with the details to fully and accurately inform the public on company activities. Information listed by Corporate Governance Principles are included with due care.

Our Annual Report for the past period, prepared in conformity with the Corporate Governance Principles stipulated in the CMB's "Corporate Governance Communiqué" n.II-17.1 that entered into force after being 03.01.2014) is an accurate and reliable source just like in the previous years, available both in print and online via our website.

In addition, necessary additions have been made to our Annual Report which has been produced in view of the provisions of the Regulation on Determining the Minimum Contents of Annual Reports of Companies published by the T.R. Ministry of Customs and Trade in the Official Gazette dated 28 August 2012, and our Annual Report is being updated within the frame of the legislation and regulations.

The headings in the present Annual Report have been addressed under 6 main sections: These main sections are titled as "Tofaş At a Glance", "Management", "Activities", "Sustainability", "Capital Structure, Corporate Governance and Other Issues", and "Financial Information".

The following subsections are listed under the main sections: Key Financial and Operational Indicators, Institutional Investor Relations, Board of Directors, Senior Management, Automotive Industry, Tofaş's Place in the Industry, Subsidiaries, Sustainability and Social Responsibility Policy, Customer Satisfaction Policy, Agenda of General Assembly Meeting, Declaration of Corporate Governance Principles

and Compliance Report, Associate Company Report, 2018 Dividend Distribution Proposal, Consolidated Financial Statements, and Independent Auditor's Report.

The Annual Report for the past period was prepared in strict conformity with the Corporate Governance Principles stipulated in the CMB's "Corporate Governance Communiqué" No. II-17.1, Article 2.2. titled "Annual Report", and contains accurate and complete information.

The 2019 Annual Report has also been prepared and reviewed in accordance with applicable laws and regulations.

SECTION IV- STAKEHOLDERS

4.1. Keeping Stakeholders Informed

Based on the concept of "stakeholders" referring to employees, suppliers, customers and basically third parties in direct relationship with the company, our Company develops policies for various stakeholders and/or stakeholder groups.

All rightful parties and stakeholders are entitled to the same practices, implementations and effective communications. Our corporate governance practices ensure the protection of our stakeholders' rights, which are both defined by relevant regulations and also those which are not defined yet.

Necessary and systematic communication channels have been established to keep the Company's stakeholders informed on matters that are of concern to them. Additionally, the Company has also made available the necessary mechanisms for reporting the illegitimate and unethical transactions to the Audit Committee via Internal Audit. Both the Audit Committee and the Early Detection of Risk and Risk Management Committee pay maximum attention to these matters during the meetings. Besides Tofaş Rules of Ethical Conduct and Operating Guidelines for the Ethics Board, Anti-bribery and Anti-Corruption Policy was issued in 2015, and posted on the corporate website. Within the scope of anti-bribery and anti-corruption program, necessary guidelines, procedures and policies have been produced and put into force.

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE REPORT

Specifically, headings such as Human Resources, Business Management Policies, Rules of Ethical Conduct and topics related to Tofaş Dealer Network and Supply Chain Management practices are addressed in the Company's Annual Report.

We adhere to, and are guided in our actions by, the principles spelled out in the "United Nations Global Compact", to which our partner Koç Holding is a signatory, and which are implemented at Koç Group companies in the audit and reporting of related processes, and by the principle of being a responsible corporate citizen together with all our employees, dealers, suppliers and authorized service outlets.

Tofaş Code of Ethics, Anti-Bribery and Corruption Policy, procedures concerning the Ethics Board's activities can be accessed on our Company's Internet and Intranet sites. Any deviation from these guidelines and policies can be notified via electronic mail (etikkurul@tofas.com.tr) or in writing by our employees, business partners and all other stakeholders. Any notifications made to the Board shall be kept in confidence.

Through the communication and whistleblower line, stakeholders can notify illegitimate practices and unethical acts and actions to Tofaş Ethics Board for handling by the relevant Committee. The Ethics Board will adhere to the procedures in its preliminary assessment.

Tofaş Ethics Board is formed of the Company's CEO, related Directors, HR Director and the Company's Chief Legal Counsel. The Board holds periodic meetings; in addition, the Ethics Board is required to meet within no later than two business days upon invitation by any one of its members.

The Board is ex officio or upon any application, entitled to make necessary investigation and research about actions and practices contrary to principles. Notifications can be named or anonymous. For the investigation and research it will make about actions and practices contrary to principles, the Board may request information and documents from entities by using channels of public authorities.

In terms of Corporate Governance Principles, the system implemented and the Board decisions taken within the scope of the Company's internal control are submitted for the information of the Audit Committee. The Audit Committee

determines the methods and criteria to be implemented for reviewing and resolving the complaints received regarding the Company's accounting and internal control system and independent audit, and for handling the Company employees' notifications regarding the Company's accounting and independent audit within the frame of confidentiality principle. Furthermore, relevant issues can also be separately addressed by the Early Detection of Risk and Risk Management Committee, if deemed necessary.

Anti-Bribery and Anti-Corruption Policy sets out the basics about the topic. Information on the Tofaş Ethics Board and its operation setting out the duties, responsibilities and operating principles of the Ethics Board are available to the public on Tofaş website.

4.2. Participation of Stakeholders in Management

Procedures allowing the participation of the stakeholders in the improvement of administrative matters and expressing their ideas actively in this respect are in place in our company. The process and mechanisms to ensure that beneficiaries as stakeholders participate in Company Management regarding the issues related with them are supported and implemented by the Company.

With the objective of becoming WCM (World Class Manufacturing) and WCC (World Class Company), similar implementations are being developed and maintained. For its outstanding manufacturing capacity, our Company has earned gold level status in WCM in 2013, and repeated this achievement also in the following years. Additionally, our Company undertakes strategic efforts based on total quality philosophy, such as quality planning and quality control systems, quality improvement methods, Kaizen studies, and open door meetings, all of which aim to increase productivity. Detailed information relating to these efforts is provided in the Annual Report and the Sustainability Report.

Stakeholder expectations are managed and addressed by relevant Departments. To this end, systematic meetings and training programs are organized so that employees, suppliers and customers can voice their demands. Also, surveys such as "working life assessment questionnaires" are conducted in line with Human Resources Policies. In addition to the corporate website, the Company also has an intranet and an internal publication ("Tofaş Gazete") aimed at improving internal communication and facilitating information flow.

In addition to dealership council and dealership organization meetings, there is a system through which customer demands and satisfaction level are analyzed. The company management evaluates this information, takes necessary actions and provides feedback accordingly. Moreover, activities regarding “Customer Relations Principles” and similar practices ensure effectiveness and maximization of customer relations and implementation of policies towards improvement of the service quality. In connection with these practices, we have planned and implemented studies covering current events within the reporting period. Additionally, practices aimed at customers and suppliers are monitored and updated continuously in line with modern practices.

Within the frame of relations with customers and clients, any and all actions to ensure customer satisfaction during marketing, sale and post-sale of the goods and services of the company have been taken and put into practice. A prompt response is made to customer queries and demands regarding our products and the customers are provided with the required feedback. Maximum efforts and resources are used for proactive solutions to company complaints. Improvement studies are organized systematically and high quality is assured by means of quality certifications and quality standards.

The principles and policies for suppliers as well as satisfaction criteria in customer centered product and services are regularly measured and followed up by the related units of the company. Furthermore, we attach importance to arrangements related to customers and suppliers based on the market developments. Comprehensive application procedures are available in this regard.

In addition to those, the Customer Relations Management department continued to work effectively and in coordination in 2019 as it did in previous years to enhance customer satisfaction concerning marketing and sales of the Company's products and services.

Our company accords utmost importance to practices that are built upon quality, efficiency and institutionalization. Also due care “governance” methods that will increase participation of beneficiaries in management in line with the stakeholders' feedback. Therefore, beneficiaries' comments and feedback are regarded as important inputs with respect to significant decisions that bear an implication in respect of beneficiaries or that directly concern them.

Furthermore, “Sustainability Management” and “Stakeholder Relations” bear significance in terms of “Governance and Sustainability”, as underlined in the Sustainability Report which has been prepared under the Company's Sustainability Policy and which can be accessed and reviewed from our website. Necessary efforts are being spent to implement these two topics effectively. Working environment, improving the value chain and corporate citizenship gain visibility as our key parameters. Additionally, “we deem it as a primary responsibility to establish an environment of communication” with a special focus on “transparency with stakeholder groups”, as mentioned in the Sustainability Reports. We seek stakeholders' opinions about our operations and we constantly inform them. “When planning our activities, we take into account the characteristics of stakeholder groups in order to develop the most appropriate channels.”

4.3. Ethics and Social Responsibility

Social activities for the district where the plant is located and the society in general are organized, carried out and followed up according to corporate social responsibility and societal impact area criteria. Related activities during the reporting period are detailed in the Annual Report. Furthermore, the internal publication (Tofaş Gazete), which is periodically published on the intranet (TofaşGO) and in print, covers our social initiatives ranging from corporate to individual activities, as well as various news and information. In addition to sponsorship of a range of printed works, sponsorship support is extended to Koç Group's social responsibility initiatives and/or associations, foundations and organizations working for social causes.

In this context, support is given to projects in a wide range of disciplines from education to sports, from cultural activities to the arts. These initiatives include, among others, Fiat Laboratory, Master's Program, Tofaş Science High School, Tofaş Sports Club, Tofaş Basketball Schools, Bursa Museum of Cars and Anatolian Carriages, Pamukkale Hierapolis Archaeological Excavations, and New Generation Tofaş Project sponsorships. The Company's social responsibility policy focuses on dynamics that will drive corporate and social development.

Activities that will raise awareness and recognition, and “sustainability perspective” are important elements of these social responsibility initiatives and sponsorships.

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE REPORT

The Sustainability Policy is of particular importance in this respect. Information on these topics is available in the Company's Annual Report and Sustainability Report and also on the environmental, social and corporate sustainability application at our corporate website.

There were no complaints regarding environmental issues during the reporting period and we have records including environmental assessment reports. We have been implementing effective practices and inform our stakeholders within the scope of environmental sensitivity policies with the existing ISO certificates related to meeting quality and effectiveness standards. Furthermore, our Company continues its extensive activities related to Social Responsibility projects and environmental protection and presents them to the knowledge of the public. Furthermore; with comprehensive Corporate Social Responsibility projects, issues of protecting the environment, energy management and awareness and activities for climate change are given maximum importance.

Additionally, Tofaş was the first automotive company to be included in Borsa Istanbul (BIST) Sustainability Index in 2014. According to an assessment conducted by Borsa İstanbul, Tofaş fulfilled all criteria, and qualified for inclusion in the BIST Sustainability Index in 2019 as well.

Tofaş's Environment & Energy Policy reflects the Company's environmental sensitivity and efforts related to about sustainable manufacturing and green products.

The Company takes necessary steps to ensure compliance with, and implementation of ethical rules in general. Related information has been presented in detail in the relevant subsections hereinabove. The members of the company comply with the generally accepted ethical rules forming a part of the regulations and arrangements. Furthermore, ethical rules were put into writing under the Corporate Governance Principles, and made public on our website under the title "Tofaş Ethics Rules and Implementation Principles". The said document is referred to within our Company's "Personnel Regulations". These ethical rules cover issues regarding our shareholders, disclosure of information, employee activities, stakeholders and the Board of Directors.

An Ethics Board was established within the scope of Company's Corporate Policies. Moreover, "Ethics Rules and Implementation Principles" has been distributed to Tofaş employees working at any level, and necessary information is provided also periodically.

Tofaş Code of Ethics applies to all Tofaş employees, Board of Directors members, Shareholders, Subsidiaries, Dealers and Suppliers - in brief all Tofaş people.

All Tofaş people are expected to comply with Tofaş Code of Ethics. Tofaş People are obliged to abide by Tofaş Code of Ethics.

Tofaş does not exercise discrimination in whatsoever manner in its business dealings on the basis of language, race, gender, political affiliation, philosophical belief, religion, sect or similar reasons. Unless dictated by reasons pertaining to the nature of the job such as the risk associated with the specific position, employee safety, legal obligations, etc., different practices are not implemented directly or indirectly by reason of gender or pregnancy when concluding an employment contract, formulating its terms and conditions, and/or terminating it. Lower remuneration cannot be determined due to gender for the same or equivalent job. Recruitment, appointment and promotion are based on objective performance criteria without discriminating on the basis of language, religion, gender, race, etc.

In accordance with Tofaş Code of Ethics, all employees of the Company fill out a Conflict of Interest Statement form, pledging that they will not be involved in any situations that may generate a conflict of interest and therefore negatively impact their decisions, impartiality or loyalty to the Company.

For our employees, in particular, and for all our shareholders in the value chain we have created, Tofaş tries to expand the practices that have respect and awareness for human rights. As a consequence of our approach in this issue, absolutely no "child workers" are employed in Tofaş; and there are no "involuntary servitude" practices.

One instance of the importance Tofaş gives to human rights and practices related to them is to be seen in the first article of the Tofaş Code of Ethics which states that the company "respects human rights and the constitutional rights of freedom of association and collective bargaining".

Acting in compliance with the principles determined by the “United Nations Global Compact”, to which our partner Koç Holding is a signatory and which is implemented at Koç Group companies in the audit and reporting of related processes, has been espoused within the frame of the principle of being a role model of corporate citizenship together with all our employees, dealers, suppliers and authorized service outlets.

The Company confirms that its anti-corruption policy, procedures and systems are adequate and in place. To this end, the Early Detection of Risk and Risk Management Committee oversees internal audit, internal control, anti-corruption and anti-bribery mechanisms implemented by the Company.

Related activities have been carried out exercising due care in 2019, as in previous years.

The Company’s Information Disclosure Policy was revised and posted on PDP on 30 November 2016. All stakeholders, shareholders in particular, and the public are informed of any amendments or updates to the Policy.

SECTION V – BOARD OF DIRECTORS

5.1. Board of Directors’ Structure and Formation

The task and duties of the Chairman of the Board of Directors and the CEO are assumed by different persons. Company CEO is an executive Member of the Board of Directors. Members of the Board of Directors pay attention to spare the necessary time for the Company affairs. There are no restrictions for them to assume other tasks outside the company. Particularly for the reason that independent members’ Professional and sectoral experience has significant contribution to the Board of Directors, there is no need for such restriction. Before the General Assembly, members’ résumés and tasks they assume outside the company are presented for the shareholders’ information.

Corporate Governance Committee carries out the tasks of the Nomination Committee within our Company.

The number of independent member candidates presented to the Corporate Governance Committee for 2019 was two. ID information, statement of candidacy and résumés of these persons were evaluated at the Corporate Governance Committee meeting held on 7 January 2020 and at the Board of Directors meeting no. 2019/01 held on 7 January 2020, and a decision was taken to nominate all of them as independent member candidates. All Independent Members of the Board of Directors presented their independence statements to the Corporate Governance Committee. As per the sixth paragraph of the 5th Article of the mentioned Communiqué, Ms. Neslihan Tonbul and Mr. Sergio Duca were determined as Board of Directors’ independent member candidates in conformity with the regulation “minimum half of the independent members (would be sufficient)” for the criteria “to be considered resident in Turkey according to the Income Tax Law” stipulated in the paragraph (d) of the first clause of the compulsory principle n.4.3.6. After the necessary consent received with the CMB decision n. 29833736110.07.07-E.1151 (date: 24 January 2020) for the independent member candidates of the Board of Directors within the scope of the Article n.4.3.7 of the Communiqué, the independent members were elected for a one-year term at the General Assembly held on 13 March 2019.

As of 2019 operating period, there were no situations that would prejudice independency.

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Independent Member of the Board of Directors Ms. Neslihan Tonbul's Independence Statement is given below;

I do declare that I am a candidate for assuming the role of an "Independent Member" in the Board of Directors of Tofaş Türk Otomobil Fabrikası A.Ş. (Company); within the scope of the criteria stipulated in the legislations, the Articles of Association of the Company and the CMB's Corporate Governance Communiqué II-17.1, and within this scope;

a) Within the last five years, no executive employment relation that would give important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and (i) the Company and (ii) the subsidiaries of Company, and (iii) shareholders who control the management of Company or who have significant influence in Company and juridical persons controlled by these shareholders; and that I neither possess more than 5% of any and all capital or voting rights or privileged shares nor have significant commercial relations,

b) Within the last five years, I have not worked as an executive manager who would have important duties and responsibilities or have not been a member of the Board of Directors or been a shareholder (more than 5%) particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), and in the companies that the Company purchase products and services from or sells products and services to within the framework of the agreements signed (during the timeframe of selling/purchasing of the products and services,

c) I do have the professional training, knowledge, and experience that will help me properly carry out the tasks and duties I will assume as a result of my independent membership in the Board of Directors,

ç) In accordance with the legislations, I will not be working fulltime in public institutions and organizations (except working as an academician at the university) after being elected as a member,

d) I am considered a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,

e) I do have the strong ethical standards, professional standing and experience that will help me positively contribute to the activities of Company and remain neutral in conflicts of interests between Company shareholders, and that will help me take decisions freely by taking the rights of the stakeholders into consideration,

f) I will be able to devote the sufficient time for the activities of the Company to an extent that will help me pursue the activities of the Company and fulfill the requirements of my tasks and duties,

g) I have not been a member of the Board of Directors of the Company for more than 6 years in total within the last decade,

ğ) I have not been an independent member of the Board of Directors in more than three of the companies controlled by the Company or by the shareholders who control the management of the Company and in more than five of the publicly traded companies in total,

h) I have not been registered and announced on behalf of the juridical person elected as member of the Board of Directors,



NESLİHAN TONBUL

Independent Member of the Board of Directors Mr. Sergio Duca's Independence Statement is given below;

I hereby declare that I stand for serving as an 'independent member' on the Board of Directors of Tofaş Türk Otomobil Fabrikası A.Ş. (the Company) under the criteria set out in the Company's Articles of Association and Corporate Governance Principles Communiqué no. II-17.1 released by the CMB, save for the criteria "being considered a resident of Turkey for the purposes of the Income Tax Law". In this context, I hereby declare as follows:

- a) Within the last five years, no executive employment relation that would give important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and (i) the Company and (ii) the subsidiaries of Company, and (iii) shareholders who control the management of Company or who have significant influence in Company and juridical persons controlled by these shareholders; and that I neither possess more than 5% of any and all capital or voting rights or privileged shares nor have significant commercial relations,
- b) Within the last five years, I have not worked as an executive manager who would have important duties and responsibilities or have not been a member of the Board of Directors or been a shareholder (more than 5%) particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), and in the companies that the Company purchase products and services from or sells products and services to within the framework of the agreements signed (during the timeframe of selling/purchasing of the products and services,
- c) I do have the professional training, knowledge, and experience that will help me properly carry out the tasks and duties I will assume as a result of my independent membership in the Board of Directors,
- ç) In accordance with the legislations, I will not be working fulltime in public institutions and organizations (except working as an academician at the university) after being elected as a member,
- d) I do have the strong ethical standards, professional standing and experience that will help me positively contribute to the activities of Company and remain neutral in conflicts of interests between Company shareholders, and that will help me take decisions freely by taking the rights of the stakeholders into consideration,
- e) I will be able to devote the sufficient time for the activities of the Company to an extent that will help me pursue the activities of the Company and fulfill the requirements of my tasks and duties,
- f) I have not been a member of the Board of Directors of the Company for more than 6 years in total within the last decade,
- g) I have not been an independent member of the Board of Directors in more than three of the companies controlled by the Company or by the shareholders who control the management of the Company and in more than five of the publicly traded companies in total,
- ğ) I have not been registered and announced on behalf of the juridical person elected as member of the Board of Directors,



SERGIO DUCA

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Summary information about the members of our Company's Board of Directors and their positions as of the end of the reporting period is as follows:

NAME SURNAME	POSITION	CURRENT POSITIONS HELD OUTSIDE THE PARTNERSHIP	INDEPENDENT/NON-INDEPENDENT	COMMITTEES AND POSITION
ÖMER M. KOÇ	Chairman	Chairman of the Board of Directors in Koç Holding A.Ş.	Non-independent	None
PIETRO GORLIER	Vice Chairman	Chairman of the Board of Directors in Fiat Industrial S.p.A & Chairman of the Board of Directors and CEO in Chrysler Group (FCA Group)	Non-independent	None
CENGİZ EROLDU	Member & CEO	None	Non-independent	None
TEMEL KAMİL ATAY	Member	None	Non-independent	None
LEVENT ÇAKIROĞLU	Member	CEO and Member of the Board of Directors at Koç Holding A.Ş.	Non-independent	None
DAVIDE MELE	Member	CEO of Fiat Group S.p.A. EMEA & Chairman of the Business Development in Fiat	Non-independent	Corporate Governance Committee - Member
İSMAİL CENK ÇİMEN	Member	Chairman of Koç Holding A.Ş. Automotive Group	Non-independent	Corporate Governance Committee - Member Risk Early Detection and Management Committee Member
GIORGIO FOSSATI	Member	General Counsel for Fiat Chrysler Automobiles N.V.; General Counsel for FCA EMEA	Non-independent	Risk Early Detection and Management Committee - Member
NESLİHAN TONBUL	Independent Member	Member of the Board of Directors at Turcas Petrol, independent member of the Board of Directors at Vakıfbank International (Vienna), Advisor at New Zealand Trade and Enterprise, Senior Advisor at Cambridge Family Enterprise Group' (USA).	Independent	Audit Committee - Chairman & Risk Early Detection and Management Committee - Chairman - & Corporate Governance Committee - Member
SERGIO DUCA	Independent Member	Chairman of the Board of Statutory Auditors at Enel S.P.A	Independent	Corporate Governance Committee - Chairman & Audit Committee - Member & Risk Early Detection and Management Committee - Member

Curriculum vitae of current Board Members and Company CEO are included in the relevant section of the Annual Report.

We believe that diversity of knowhow, experience and point of view in our Board of Directors will have positive impacts on the Company activities and will enable the Board of Directors to work effectively. Furthermore; Corporate Governance Principle n.4.3.9 is evaluated within this scope. Our evaluations continue to set a target ratio and policy for female Members of the Board of Directors who also serve as an instrument for representing different ideas. One woman member was serving on our Board of Directors as at the end of the reporting period.

5.2. Functioning of the Board of Directors

Titles or agenda items regarding Resolutions of the Board of directors are prepared and issued periodically and as necessary. The number of the meetings of the Board may vary depending on emerging needs.

The Board of Directors has made 20 decisions in 2019 and the minutes of meetings regarding the decisions are duly registered. Board of Director meetings are called and convened whenever Company business requires it.

The relevant unit coordinates the meeting agenda, minutes, and board resolution records. When there is a dispute regarding a board resolution, the relevant case, along with its justifications, is recorded. Board resolutions also should contain relevant inquiries and responses in this regard. Board decisions are made by attendance and positive vote of absolute majority of members (within the scope of Article 10 of the Articles of Association). Requirements set forth by Corporate Governance Principles by CMB are reserved.

No weighted votes or vetoing rights are granted as per the TCC. Articles 10 and 11 of the Articles of Association govern the election, formation, decision quorum and term of office of the Board of Directors, the distribution of tasks in the Board of Directors, representation and delegation of management. As mentioned above, all Board of Directors decisions are passed by the attendance and affirmative votes of the absolute majority of all members. However, attendance and affirmative votes of at least two non-independent Board members representing Group A shares and of at least two

non-independent Board members representing Group D shares are required for achieving this quorum as per Article 10 of the Articles of Association. The provision of Article 15 of the Articles of Association is reserved with respect to decisions requiring the attendance and affirmative vote of independent members.

Article 11 of the Company Articles of Association regulates "Division of Tasks, Representation and Transfer of Management for the Board of Directors". In addition, other items the Articles of Association also cover the required issues. The Company management is specified pursuant to Turkish Trade Code and the relevant regulations mainly based on representation and binding of the company, and the authorities are exercised pursuant to legal requirements. Duties and responsibilities of members of the Board of Directors and the executives of the Company are included in the legal regulations, capital market regulations and the Articles of Association.

The Corporate Governance Committee carries out the procedures related to nominating candidates to the seats on the Board of Directors, and to election and appointment of the nominees. There is an "Officers' Liability Insurance" policy for our Company's Board of Directors members and senior executives separately for Koç Holding and FCA Italy S.p.A. representing Group A and Group B.

While overseeing the Company's operations, the Board of Directors assesses whether a conflict of interest is likely to arise, and the outcomes of such conflict, if applicable, and passes the necessary decisions to the best interests of the Company. Moreover, The Board of Directors ensures regulatory compliance in related party transactions, considers possible misconduct risks, and meticulously addresses related party transactions.

5.3. Number, Structure and Independency of Committees Formed under the Board of Directors

Pursuant to the Article 11 of the Articles of Association, an Executive Committee consisting of 4 persons -2 Group A and Group D shareholders - can be established if and when deemed necessary. The Committee can be established among the members of the Board of Directors in order to carry out the necessary actions between two Board meetings.

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Pursuant to the relevant CMB Communiqué, an Audit Committee has been set up and pursuing activities since 2003; the Committee is responsible for presenting its opinion and proposal regarding the financial results to the Board of Directors based on available information derived by following up financial matters, reviewing periodical financial statements and notes thereto, carrying out the necessary activities as defined by the Corporate Governance Principles and reviewing the Independent Auditor's Report. The Audit Committee is also charged with monitoring the internal audit process and it is constituted by independent Board members pursuant to the CMB Communiqué No: II-17.1. In 2012, the operating principles of the Audit Committee were revised and publicly disclosed.

The Audit Committee has been reconstituted by the Board of Directors decision no. 2019/12 dated 19 March 2019. As at the end of the reporting period, Ms. Neslihan Tonbul (Chairman – independent Board member) and Mr. Sergio Duca (Member – independent Board member) were serving on the Committee.

Furthermore, Corporate Governance Committee under Corporate Governance Principles been established in 2008. Corporate Governance Committee has started its activities in accordance with the Corporate Governance Principles, regulations issued by CMB as per the related legislation and the activities of the Company regarding Corporate Governance Principles. Compliance of the Company with Corporate Governance Principles is followed up by the Board of Directors, rules of procedures of Corporate Governance Committee have been revised in 2018 and disclosed.

The Corporate Governance Committee has been reconstituted by the Board of Directors Decision no. 2019/12 dated 19 March 2019. As per the said decision, the Committee was formed of Mr. Sergio Duca (Chairman – independent Board member), Ms. Neslihan Tonbul (Member – independent Board member), Mr. İsmail Cenk Çimen (Member – Board member), Mr. Davide Mele (Member – Board member) and Mr. Fabrizio Renzi (CFO).

As per the governing provisions of the new Turkish Commercial Code effective as of 01.07.2012, Early Detection of Risk and Risk Management Committee has been established with the purposes of efficiency of Committees established under the Board of Directors, early detection of risks which may jeopardize the Company's existence, improvement and progression, implementation of measures related with such

risks and risk management and implementation and follow-up of Company's internal control, internal audit and risk management activities and its rules of procedures have been set as of 2012.

Early Detection of Risk and Risk Management Committee was restructured by the Board of Directors decision no. 2019/12 dated 19 March 2019. As at the end of the reporting period, the Committee was formed of Ms. Neslihan Tonbul (Chairman – Independent Board Member), Mr. Sergio Duca (Member – Independent Board Member), Mr. İsmail Cenk Çimen (Member – Board Member) and Mr. Giorgio Fossati (Member - Board Member).

Board members are assigned to committees based on their knowledge and experience levels and in accordance with applicable regulations. Some board members serve on multiple committees. Board members, who serve on multiple committees, are responsible for ensuring communication and cooperation between committees that oversee areas related to each other. The Chairmen of these Committees should be selected among Independent Board Members as per the mentioned Communiqué on Corporate Governance Principles. Both Independent Board Members are members of each committee. Mr. İsmail Cenk Çimen, member of Corporate Governance Committee is also a member of Early Detection of Risk and Risk Management Committee. Board Member is a member of both Committees for their coordination.

Audit Committee, Corporate Governance Committee and Early Detection of Risk and Risk Management Committee hold periodic and other meetings as required by the legislation. In accordance with the rules of procedures, meetings with a certain agenda can be held other than periodic meetings. In this context, Audit Committee, Early Detection of Risk, Risk Management Committee and Corporate Governance Committee have held 4 meetings each in 2019.

Board of Directors is informed about the committee roles, its activities and the reports. When required, experts and other managers who are not Committee members but related with the agenda can be invited to the Committee. Furthermore, task groups consisting of people with required experience and information can be formed. The committees act in line with their responsibilities and submit their comments and recommendations to the Board. Final decisions are made by the Board. The Board of Directors expressed its positive opinion regarding the efficiency of the Committees.

5.4. Risk Management and Internal Control Mechanism

A risk management is envisaged and internal control organization is established depending on financial and administrative activities of the company and the functioning and effectiveness of the internal auditing shall be followed up according to capital market regulations and rules.

Board of Directors is responsible for proper functioning of internal control system and internal audit and CEO will make the coordination on behalf of the Board of Directors. Early Detection of Risk and Risk Management Committee as well as the Audit Committee will follow-up proper functioning of internal control system, internal audit and risk management and submit the results to the Board of Directors.

Thus, corporate risk management and internal control systems were established by the Board of Directors. The activities of these processes and systems are coordinated within the Committees. Internal Control Systems and Internal Audit Process are primarily monitored and pursued in the Audit Committee. Furthermore; the effectiveness of these systems are evaluated by the Early Risk Detection and Risk Management Committee together with the corporate risk management process.

In line with the Risk Management Policy, Company's risk management is organized in conformity with the legal regulations and legislation to make reporting to the Board of Directors. Within this framework the policy is based on the following principles; "protecting company assets and values", "ensuring commercial, financial and operational confidence" and "ensuring sustainability in corporate risk management". In addition to this, Company Management is financially, commercially, operationally and organizationally responsible for taking and implementing all measures necessary for corporate risk management and internal audit activities.

As of the end of 2019, it has been assessed that proactive measures are taken against financial and operational risks and predictable potential risks through the Company's internal control system, internal audit activities and corporate risk management and that the Company meets the legislative requirements regarding internal control, internal audit and risk management. After reviews, it has been stated that no important problems were observed on the effectiveness of internal controls for providing effective, secure and

uninterrupted provision of Company's activities and services; integrity, consistency, timely availability and reliability of data provided by the Company's accounting and financial reporting system; effectiveness, efficiency and adequateness of internal controls aimed at providing security and the running of internal control, internal audit and risk management system regarding the preparation of consolidated financial tables in accordance with the applicable legislation and corporate risk management and the internal control system function well and the related records are kept.

The Internal Audit Department directly reports to the Company's CEO who at the same time is a Member of the Board of Directors. This department examines processes and prepares reports regarding current and potential risks and proposes solutions. Predictable risks attached to the activities will be evaluated, information flow will be followed up by the Board Member and CEO and the results will be evaluated by the Audit Committee and Early Detection of Risk and Risk Management Committee and submitted to the Board of Directors.

Within this framework, the Board of Directors carries out risk management activities via the Early Detection of Risk and Risk Management Committee, as stated in related sections hereinabove. The Early Detection of Risk and Risk Management Committee reviews the effectiveness of the risk management systems, and reports its activities and assessments to the Board of Directors. The Committee's activities are covered in the section titled "Activities of the Early Detection of Risk and Risk Management Committee" of this Annual Report. The Annual Report also includes the Auditor's Report containing the independent auditor's assessment and clearance about the topic.

5.5. Strategic Targets of the Company

Company's strategic targets are set, approved, and implemented by the Board of Directors. Board of Directors makes assessments by periodically reviewing the level of achieving Company's targets, and activities and previous performance of the Company. In this context, the Board of Directors ensures that necessary measures are taken in a manner most appropriate to Company's risk, growth and revenue balance in terms of strategic decisions while it administers the Company by overseeing the Company interests.

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As per the strategic priorities and objectives, the mission, vision and values of the Company have been formulated and published and renewed upon revisions in line with the improvements. Board of Directors audits the management and performance of the Company within the scope of providing necessary resources and risk management by identifying Company's strategic targets.

Vision, mission and values along with designation and implementation of Company's strategic objectives will be completed by the Company top-level management, submitted to the Board of Directors and followed-up. Strategic decisions of our Company were implemented in 2019 according to their priorities. Based on the strategic targets, the Board of Directors reviews and evaluates previous year's performance, compares the results with targets and determines the upcoming year objectives proposed by the senior management.

Board of Directors will coordinate the Company Top-Level Management in designation of Company's strategic objectives, actively participate in approval and implementation processes, periodically review the level of achievement of objectives, activities and performance of the Company and evaluate the functioning, efficiency and outcomes of the related system.

In accordance with the vision and methods offered by the Board of Directors and the legislation, Company Top-Level Management will use its maximum efforts to ensure effective management of the Company and periodically inform the Board of Directors and the related Board Committees as per the regulations and the legislation based on Directorates on behalf of the CEO and all stakeholders.

The Board of Directors exercises the necessary degree of responsibility with respect to the sustainability of these strategic efforts, as well as to enhancing their efficiency.

5.6. Financial Rights

Board of Directors is responsible for Company's determined and publicly announced operational and financial performance targets. Furthermore; remuneration principles for the Members of the Board of Directors and executives who have administrative responsibilities were printed and presented to the shareholders' information with a separate agenda item at the General Assembly.

Our Company's "Remuneration Policy for the Members of the Board of Directors and Executive Managers" – that includes all their rights, benefits and remuneration of the Members of the Board of Directors and executive managers as well as the criteria and remuneration principles used in determining these rights, benefits and remuneration – was presented to our shareholders' review on our corporate website and in the Annual Report and also with the "Informative Document" issued three weeks prior to our Ordinary General Assembly held on 13 March 2019. Subsequently, the policy was put into practice after the General Assembly. No revisions were made to the said policy during 2019.

The policy, which has been publicly disclosed on the corporate website and in the Annual Report, has been included in the agenda of the Ordinary General Assembly meeting that will be held to address 2019 activities, the date of which will be released by the Board of Directors once it is definitively set. The policy will be laid down for the opinions of shareholders in the General Assembly Meeting.

The total amount of payments made and benefits provided to Members of the Board of Directors and Executive Managers within the framework of the Remuneration Policy, are evaluated every year by the Corporate Governance Committee and Board of Directors. In our financial statements' footnotes, the payments made and benefits provided to the Members of the Board of Directors and executive managers are classified together and publicly announced in parallel to general practices.

Furthermore, the Company does not perform any transactions that may create conflicts of interest and does not lend money, extend credit, or does not give surety to any of the members of the Board of Directors or executive managers who have administrative responsibilities.

In the reporting period and as of 2019, no loans were granted to the members of the Board or to the senior managers and no credit was utilized by them; none of them received benefits through third-persons and moreover, no indemnities or similar were provided in their favor.

	Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
Corporate Governance Compliance Report						
1.1. FACILITATING THE EXERCISE OF SHAREHOLDER RIGHTS						
1.1.2- Up-to-date information and disclosures which may affect the exercise of shareholder rights are available to investors at the corporate website.	x					
1.2. RIGHT TO OBTAIN AND REVIEW INFORMATION						
1.2.1 - Management did not enter into any transaction that would complicate the conduct of special audit.	x					
1.3. GENERAL ASSEMBLY						
1.3.2 - The company ensures the clarity of the General Assembly agenda, and that an item on the agenda does not cover multiple topics.	x					
1.3.7- Insiders with privileged information have informed the board of directors about transactions conducted on their behalf within the scope of the company's activities in order for these transactions to be presented at the General Shareholders' Meeting.					x	There has not been such a occurrence.
1.3.8 - Members of the board of directors who are concerned with specific agenda items, auditors, and other related persons, as well as the officers who are responsible for the preparation of the financial statements were present at the General Shareholders' Meeting.	x					
1.3.10 - The agenda of the General Shareholders' Meeting included a separate item detailing the amounts and beneficiaries of all donations and contributions.		x				The amounts and beneficiaries of all donations and contributions have been included all together as a separate item on the agenda of the General Shareholders' Meeting as a separate item.
1.3.11 - The General Shareholders' Meeting was held open to the public, including the stakeholders, without having the right to speak.	x					
1.4. VOTING RIGHTS						
1.4.1 - There is no restriction preventing shareholders from exercising their shareholder rights.	x					

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE REPORT

	Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
1.4.2 - The company does not have shares that carry privileged voting rights.			x			At the General Assembly, there is one right to vote for each share, but there are no privileges in right to vote. Shareholders attending the General Assembly meeting use their rights to vote in proportion to the nominal value of the total shares. However, Members of the Board of Directors must be elected from among the candidates who will be nominated by the Privileged Shareholders of Group A and D. (10 th Article of the Articles of Association). This issue is legally confirmed due to the fact that our Company's status is a "business partnership" (joint venture) composed of "two juridical persons" who "equally control the management with an agreement".
1.4.3-The company withholds from exercising its voting rights at the General Shareholders' Meeting of any company with which it has cross-ownership, in case such cross-ownership provides management control.					x	Company has no a mutual participation that leads to rulership.
1.5. MINORITY RIGHTS						
1.5.1 - The company pays maximum diligence to the exercise of minority rights.	x					
1.5.2 - The Articles of Association extend the use of minority rights to those who own less than one twentieth of the outstanding shares, and expand the scope of the minority rights.			x			The Company's Articles of Association do not grant minority rights to those holding less than one twentieth of the capital, and rights are provided within the framework of the general regulations in the legislation.
1.6. DIVIDEND RIGHT						
1.6.1 - The dividend policy approved by the General Shareholders' Meeting is posted on the company website.	x					
1.6.2 - The dividend distribution policy comprises the minimum information to ensure that the shareholders can have an opinion on the procedure and principles of dividend distributions in the future.	x					
1.6.3 - The reasons for retaining earnings, and their allocations, are stated in the relevant agenda item.					x	Dividend has been distributed.

	Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
1.6.4 - The board reviewed whether the dividend policy balances the benefits of the shareholders and those of the company.	x					
1.7. TRANSFER OF SHARES						
1.7.1 - There are no restrictions preventing shares from being transferred.		x				Article 8 of the Articles of Association "Transfer of Shares and Establishment of Usufruct on Shares" stipulates the provisions to be applied regarding the sale and transfer of registered shares of Issues A and D and there are restrictions on transfer of shares subject to the said rules and arrangements. This features the protection of the existing rights of the dominant shareholders and the limitation of the transfer of shares to any automobile manufacturer or to companies that are controlled indirectly. CMB regulations are applicable for transferring Company's publicly traded Group E registered shares.
2.1. CORPORATE WEBSITE						
2.1.1 - The company website includes all elements listed in Corporate Governance Principle 2.1.1.	x					
2.1.2 - The shareholding structure (names, privileges, number and ratio of shares, and beneficial owners of more than 5% of the issued share capital) is updated on the website at least every 6 months.	x					
2.1.4 - The company website is prepared in other selected foreign languages, in a way to present exactly the same information with the Turkish content.	x					
2.2. ANNUAL REPORT						
2.2.1 - The board of directors ensures that the annual report represents a true and complete view of the company's activities.	x					
2.2.2 - The annual report includes all elements listed in Corporate Governance Principle 2.2.2.	x					
3.1. CORPORATION'S POLICY ON STAKEHOLDERS						
3.1.1- The rights of the stakeholders are protected pursuant to the relevant regulations, contracts and within the framework of bona fides principles.	x					
3.1.3 - Policies or procedures addressing stakeholders' rights are published on the company's website.	x					

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE REPORT

	Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
3.1.4 - A whistleblowing program is in place for reporting legal and ethical issues.	x					
3.1.5 - The company addresses conflicts of interest among stakeholders in a balanced manner.	x					
3.2. SUPPORTING THE PARTICIPATION OF THE STAKEHOLDERS IN THE CORPORATION'S MANAGEMENT						
3.2.1 - The Articles of Association, or the internal regulations (terms of reference/manuals), regulate the participation of employees in management.	x					
3.2.2 - Surveys/other research techniques, consultation, interviews, observation method etc. were conducted to obtain opinions from stakeholders on decisions that significantly affect them.	x					
3.3. HUMAN RESOURCES POLICY						
3.3.1 - The company has adopted an employment policy ensuring equal opportunities, and a succession plan for all key managerial positions.	x					
3.3.2 - Recruitment criteria are documented.	x					
3.3.3 - The company has a policy on human resources development, and organises trainings for employees.	x					
3.3.4 - Meetings have been organised to inform employees on the financial status of the company, remuneration, career planning, education and health.	x					
3.3.5 - Employees, or their representatives, were notified of decisions impacting them. The opinion of the related trade unions was also taken.	x					
3.3.6 - Job descriptions and performance criteria have been prepared for all employees, announced to them and taken into account to determine employee remuneration.	x					
3.3.7 - Measures (procedures, trainings, raising awareness, goals, monitoring, complaint mechanisms) have been taken to prevent discrimination, and to protect employees against any physical, mental, and emotional mistreatment.	x					
3.3.8 - The company ensures freedom of association and supports the right for collective bargaining.	x					
3.3.9 - A safe working environment for employees is maintained.	x					

	Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
3.4. RELATIONS WITH CUSTOMERS AND SUPPLIERS						
3.4.1-The company measured its customer satisfaction, and operated to ensure full customer satisfaction.	x					
3.4.2 - Customers are notified of any delays in handling their requests.	x					
3.4.3 - The company complied with the quality standards with respect to its products and services.	x					
3.4.4 - The company has in place adequate controls to protect the confidentiality of sensitive information and business secrets of its customers and suppliers.	x					
3.5. ETHICAL RULES AND SOCIAL RESPONSIBILITY						
3.5.1 - The board of the corporation has adopted a code of ethics, disclosed on the corporate website.	x					
3.5.2-The company has been mindful of its social responsibility and has adopted measures to prevent corruption and bribery.	x					
4.1. ROLE OF THE BOARD OF DIRECTORS						
4.1.1 - The board of directors has ensured strategy and risks do not threaten the long-term interests of the company, and that effective risk management is in place.	x					
4.1.2 - The agenda and minutes of board meetings indicate that the board of directors discussed and approved strategy, ensured resources were adequately allocated, and monitored company and management performance.	x					
4.2. ACTIVITIES OF THE BOARD OF DIRECTORS						
4.2.1-The board of directors documented its meetings and reported its activities to the shareholders.	x					
4.2.2 - Duties and authorities of the members of the board of directors are disclosed in the annual report.	x					
4.2.3-The board has ensured the company has an internal control framework adequate for its activities, size and complexity.	x					
4.2.4 - Information on the functioning and effectiveness of the internal control system is provided in the annual report.	x					
4.2.5 - The roles of the Chairman and Chief Executive Officer are separated and defined.	x					

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE REPORT

	Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
4.2.7-The board of directors ensures that the Investor Relations department and the corporate governance committee work effectively. The board works closely with them when communicating and settling disputes with shareholders.	x					
4.2.8 - The company has subscribed to a Directors and Officers liability insurance covering more than 25% of the capital.		x				There is Directors and Officers liability insurance, but the amount is lower than mentioned here.
4.3. STRUCTURE OF THE BOARD OF DIRECTORS						
4.3.9 - The board of directors has approved the policy on its own composition, setting a minimal target of 25% for female directors. The board annually evaluates its composition and nominates directors so as to be compliant with the policy.			x			There is no target ratio and time set for the ratio of female members on the Board of Directors, and evaluation of the matter continues.
4.3.10 - At least one member of the audit committee has 5 years of experience in audit/accounting and finance.	x					
4.4. BOARD MEETING PROCEDURES						
4.4.1-Each board member attended the majority of the board meetings in person.	x					In line with the Turkish Commercial Law and the related clauses of our Articles of Association, our Board of Directors convene physically when there is a necessity regarding the Company's operations. During the reporting period, there have been 3 physical meetings. In addition, the decisions could be taken in accordance with the procedure determined in the Turkish Commercial Code Article 390 - Subclause 4.
4.4.2 - The board has formally approved a minimum time by which information and documents relevant to the agenda items should be supplied to all board members.		x				There is no description on the subject. The timing is based on subjects and continuum of the items on the agenda.
4.4.3 - The opinions of board members that could not attend the meeting, but did submit their opinion in written format, were presented to other members.					x	The Board Members have the means of submitting their opinions however there has been no such a demand.
4.4.4 - Each member of the board has one vote.	x					
4.4.5 - The board has a charter/written internal rules defining the meeting procedures of the board.			x			There are various consistent procedures within our company to determine how the BoD meetings will be held, yet there is no specific intercorporate regulation on the subject.

	Compliance Status					Explanation
	Yes	Partial	No	Exempted	Not Applicable	
4.4.6 - Board minutes document that all items on the agenda are discussed, and board resolutions include director's dissenting opinions if any.	x					
4.4.7-There are limits to external commitments of board members. Shareholders are informed of board members' external commitments at the General Shareholders' Meeting.		x				Due to the positive contribution of the work and sectoral experience of the members on the activities of the BoD, no limitations have been determined for external commitments. The CVs of the members of the BoD are included within our Annual Report.
4.5. BOARD COMMITTEES						
4.5.5 - Board members serve in only one of the Board's committees.			x			Board members are assigned to committees based on their knowledge and experience levels and in accordance with applicable regulations. Some board members serve on multiple committees. Board members, who serve on multiple committees, are responsible for ensuring communication and cooperation between committees that oversee areas related to each other.
4.5.6 - Committees have invited persons to the meetings as deemed necessary to obtain their views.	x					
4.5.7 - If external consultancy services are used, the independence of the provider is stated in the annual report.					x	There has not been received such consulting service.
4.5.8 - Minutes of all committee meetings are kept and reported to board members.	x					
4.6. FINANCIAL RIGHTS						
4.6.1-The board of directors has conducted a board performance evaluation to review whether it has discharged all its responsibilities effectively.			x			There is no specific evaluation on performance undertaken on BoD level.
4.6.4-The company did not extend any loans to its board directors or executives, nor extended their lending period or enhanced the amount of those loans, or improve conditions thereon, and did not extend loans under a personal credit title by third parties or provided guarantees such as surety in favour of them.	x					
4.6.5 - The individual remuneration of board members and executives is disclosed in the annual report.			x			Parallel to the common practice, the total remuneration of board members and executives is disclosed through the General Assembly and our financial footnotes to the public.

CORPORATE GOVERNANCE INFORMATION FORM

1. SHAREHOLDERS	
1.1. Facilitating the Exercise of Shareholders Rights	
The number of investor meetings (conference, seminar/ etc.) organised by the company during the year	Above 250
1.2. Right to Obtain and Examine Information	
The number of special audit request(s)	-
The number of special audit requests that were accepted at the General Shareholders' Meeting	-
1.3. General Assembly	
Link to the PDP announcement that demonstrates the information requested by Principle 1.3.1. (a-d)	https://www.kap.org.tr/en/Bildirim/740020
Whether the company provides materials for the General Shareholders' Meeting in English and Turkish at the same time	It is provided.
The links to the PDP announcements associated with the transactions that are not approved by the majority of independent directors or by unanimous votes of present board members in the context of Principle 1.3.9	There are no transactions that are not approved by the majority.
The links to the PDP announcements associated with related party transactions in the context of Article 9 of the Communique on Corporate Governance (II-17.1)	None
The links to the PDP announcements associated with common and continuous transactions in the context of Article 10 of the Communique on Corporate Governance (II-17.1)	https://www.kap.org.tr/en/Bildirim/740676
The name of the section on the corporate website that demonstrates the donation policy of the company	The Upper limit for the donations are determined during the General Assembly each year.
The relevant link to the PDP with minute of the General Shareholders' Meeting where the donation policy has been approved	https://www.kap.org.tr/en/Bildirim/747722
The number of the provisions of the articles of association that discuss the participation of stakeholders to the General Shareholders' Meeting	Article 14 of the Articles of Association
Identified stakeholder groups that participated in the General Shareholders' Meeting, if any	General Assembly is open to the participation of stake holders and the media without a right of voice.
1.4. Voting Rights	
Whether the shares of the company have differential voting rights	No
In case that there are voting privileges, indicate the owner and percentage of the voting majority of shares.	There are no shares with voting privileges
The percentage of ownership of the largest shareholder	37.86%
1.5. Minority Rights	
Whether the scope of minority rights enlarged (in terms of content or the ratio) in the articles of the association	No
If yes, specify the relevant provision of the articles of association.	There are no decrees in the articles of association regarding the scope of minority rights.

1.6. Dividend Right	
The name of the section on the corporate website that describes the dividend distribution policy	In our company web-site https://www.tofas.com.tr/en/Pages/default.aspx under the "Investor Relations" tab, under the "Corporate Governance" section below the title "Corporate governance policies" https://www.tofas.com.tr/en/InvestorRelations/CorporateGovernance/Documents/Dividend-Policy.pdf
Minutes of the relevant agenda item in case the board of directors proposed to the general assembly not to distribute dividends, the reason for such proposal and information as to use of the dividend.	It was decided to distribute dividends
PDP link to the related general shareholder meeting minutes in case the board of directors proposed to the general assembly not to distribute dividends	It was decided to distribute dividends

General Assembly Meetings

General Meeting Date	The number of information requests received by the company regarding the clarification of the agenda of the General Shareholders' Meeting	Shareholder participation rate to the General Shareholders' Meeting	Percentage of shares directly present at the GSM	Percentage of shares represented by proxy	Specify the name of the page of the corporate website that contains the General Shareholders' Meeting minutes, and also indicates for each resolution the voting levels for or against	Specify the name of the page of the corporate website that contains all questions asked in the general assembly meeting and all responses to them	The number of the relevant item or paragraph of General Shareholders' Meeting minutes in relation to related party transactions	The number of declarations by insiders received by the board of directors	The link to the related PDP general shareholder meeting notification
18.03.2019	0	89.10%	0.00%	89.10%	Corporate Web Site - Investor Relations - Corporate Governance - General Assembly Meetings	Corporate Web Site - Investor Relations - Corporate Governance - General Assembly Meetings	None	0	https://www.kap.org.tr/en/Bildirim/668843

CORPORATE GOVERNANCE INFORMATION FORM

2. DISCLOSURE AND TRANSPARENCY	
2.1. Corporate Website	
Specify the name of the sections of the website providing the information requested by the Principle 2.1.1.	In our company web-site https://www.tofas.com.tr/en/Pages/default.aspx under the "Investor Relations" tab, under the "Corporate Governance" section below the title "Corporate governance policies" https://www.tofas.com.tr/en/InvestorRelations/CorporateGovernance/Documents/Disclosure-Policy.pdf
If applicable, specify the name of the sections of the website providing the list of shareholders (ultimate beneficiaries) who directly or indirectly own more than 5% of the shares.	"In our company web-site https://www.tofas.com.tr/en/Pages/default.aspx under the "Investor Relations" tab, under the "Corporate Governance" section https://www.tofas.com.tr/en/InvestorRelations/CorporateGovernance/Pages/default.aspx "
List of languages for which the website is available	"Turkish: https://www.tofas.com.tr/Pages/default.aspx English: https://www.tofas.com.tr/en/Pages/default.aspx "
2.2. Annual Report	
The page numbers and/or name of the sections in the Annual Report that demonstrate the information requested by principle 2.2.2.	
a) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the duties of the members of the board of directors and executives conducted out of the company and declarations on independence of board members	"Declaration of Corporate Governance Principles and Compliance Report" section under the title "Section V - Board of Directors"
b) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on committees formed within the board structure	"Declaration of Corporate Governance Principles and Compliance Report" section under the title "Section V - Board of Directors"
c) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the number of board meetings in a year and the attendance of the members to these meetings	"Declaration of Corporate Governance Principles and Compliance Report" section under the title "Section V - Board of Directors"
ç) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on amendments in the legislation which may significantly affect the activities of the corporation	None.
d) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on significant lawsuits filed against the corporation and the possible results thereof	"Information on the Capital Structure and Shareholding of the Company" section
e) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the conflicts of interest of the corporation among the institutions that it purchases services on matters such as investment consulting and rating and the measures taken by the corporation in order to avoid from these conflicts of interest	None.
f) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the cross ownership subsidiaries that the direct contribution to the capital exceeds 5%	None.
g) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on social rights and professional training of the employees and activities of corporate social responsibility in respect of the corporate activities that arises social and environmental results	"Corporate Social Responsibility" section

3. STAKEHOLDERS	
3.1. Corporation's Policy on Stakeholders	
The name of the section on the corporate website that demonstrates the employee remedy or severance policy	Company has been acting according to Labour Law number 4857.
The number of definitive convictions the company was subject to in relation to breach of employee rights	This information is deemed as confidential and is not shared with the public.
The position of the person responsible for the alert mechanism (i.e. whistleblowing mechanism)	Tofaş Ethical Board
The contact detail of the company alert mechanism	etikkurul@tofas.com.tr
3.2. Supporting the Participation of the Stakeholders in the Corporation's Management	
Name of the section on the corporate website that demonstrates the internal regulation addressing the participation of employees on management bodies	None.
Corporate bodies where employees are actually represented	Various committees have been established to coordinate employee relations and employees also have representatives in each of these committees. However, no representative has been selected and/or assigned to coordinate relations directly with the employees except for the employee union relationships.
3.3. Human Resources Policy	
The role of the board on developing and ensuring that the company has a succession plan for the key management positions	Succession plan formed all key management positions, following the approval of CEO, The Chairman gives final approval.
The name of the section on the corporate website that demonstrates the human resource policy covering equal opportunities and hiring principles. Also provide a summary of relevant parts of the human resource policy.	In its personnel recruitment and hiring practices Tofaş makes use of techniques such as personality inventorying, competency-based interviews, foreign language proficiency exams, technical interviews, role-requirement analyses, presentations, and reference checks that will help it make the best and most appropriate choices among candidates. In the conduct of its recruitment processes, Tofaş ensures that announcements concerning vacant positions are visible among all Koç Group companies through the group's internal bulletin board system.
Whether the company provides an employee stock ownership program	There isn't an employee stock ownership program
The name of the section on the corporate website that demonstrates the human resource policy covering discrimination and mistreatments and the measures to prevent them. Also provide a summary of relevant parts of the human resource policy.	All forms of discrimination be they based on language, race, gender, political affiliation, religious belief, or similar considerations are prohibited in the conduct of business and workplace relationships at Tofaş. Work agreements between the company and its employees may not incorporate any terms or conditions which, directly or indirectly, would subject an employee to prejudicial treatment on the grounds of gender or pregnancy at the time the agreement is entered into, while it is in effect, or when it is terminated except in cases where job-related risks, employee safety, or the requirements of law dictate otherwise. The principle of "Equal Pay For Equal Work" applies to everyone and no employee may be paid more or less based on their gender.
The number of definitive convictions the company is subject to in relation to health and safety measures	3

CORPORATE GOVERNANCE INFORMATION FORM

3.5. Ethical Rules and Social Responsibility	
The name of the section on the corporate website that demonstrates the code of ethics	Company Web Site - Sustainability -Policies - Code of Ethics, Anti-Bribery and Corruption Policy
The name of the section on the company website that demonstrates the corporate social responsibility report. If such a report does not exist, provide the information about any measures taken on environmental, social and corporate governance issues.	Company Web Site - Sustainability
Any measures combating any kind of corruption including embezzlement and bribery	In the "Code of Ethics, Anti-Bribery and Corruption Policy" of the company: https://www.tofas.com.tr/en/Sustainability/Policies/Pages/default.aspx
4. BOARD OF DIRECTORS-I	
4.2. Activity of the Board of Directors	
Date of the last board evaluation conducted	None.
Whether the board evaluation was externally facilitated	No
Whether all board members released from their duties at the GSM	Yes
Name(s) of the board member(s) with specific delegated duties and authorities, and descriptions of such duties	None.
Number of reports presented by internal auditors to the audit committee or any relevant committee to the board	4
Specify the name of the section or page number of the annual report that provides the summary of the review of the effectiveness of internal controls	Activities of the Early Detection of Risk and Risk Management Committee" section, segment "C
Name of the Chairman	ÖMER M. KOÇ
Name of the CEO	CENGİZ EROLDU
If the CEO and Chair functions are combined: provide the link to the relevant PDP announcement providing the rationale for such combined roles	They are not the same person.
Link to the PDP notification stating that any damage that may be caused by the members of the board of directors during the discharge of their duties is insured for an amount exceeding 25% of the company's capital	There is liability insurance for the top management, but the amount is lower than mentioned here.
The name of the section on the corporate website that demonstrates current diversity policy targeting women directors	None.
The number and ratio of female directors within the Board of Directors	1, 10%

Composition of Board of Directors

Name, Surname of Board Member	Whether Executive Director Or Not	Whether Independent Director Or Not	The First Election Date To Board	Link To PDP Notification That Includes The Independency Declaration	Whether the Independent Director Considered By The Nomination Committee	Whether She/ He is the Director Who Ceased to Satisfy The Independence or Not	Whether The Director Has At Least 5 Years' Experience On Audit, Accounting And/Or Finance Or Not
ÖMER M. KOÇ	Non-executive	Not independent director	06.04.2016	-	Not considered	No	Yes
PIETRO GORLIER	Non-executive	Not independent director	02.11.2018	-	Not considered	No	Yes
CENGİZ EROLDU	Executive	Not independent director	13.01.2015	-	Not considered	No	Yes
TEMEL KAMİL ATAY	Non-executive	Not independent director	14.04.1994	-	Not considered	No	Yes
LEVENT ÇAKIROĞLU	Non-executive	Not independent director	01.04.2015	-	Not considered	No	Yes
DAVIDE MELE	Non-executive	Not independent director	02.11.2018	-	Not considered	No	Yes
İSMAİL CENK ÇİMEN	Non-executive	Not independent director	23.10.2009	-	Not considered	No	Yes
GIORGIO FOSSATI	Non-executive	Not independent director	18.02.2016	-	Not considered	No	Yes
NESLİHAN TONBUL	Non-executive	Independent director	15.03.2018	https://www.kap.org.tr/Bildirim/740020	Considered	No	Yes
SERGIO DUCA	Non-executive	Independent director	15.03.2018	https://www.kap.org.tr/Bildirim/740020	Considered	No	Yes

4. BOARD OF DIRECTORS-II**4.4. Meeting Procedures of the Board of Directors**

Number of physical board meetings in the reporting period (meetings in person)	In line with the Turkish Commercial Law and the related clauses of our Articles of Association, our Board of Directors convene physically when there is a necessity regarding the Company's operations. During the reporting period, there have been 3 physical meetings, while the decisions could be taken in accordance with the procedure determined in the Turkish Commercial Code Article 390 - Subclause 4.
Director average attendance rate at board meetings	100%
Whether the board uses an electronic portal to support its work or not	No
Number of minimum days ahead of the board meeting to provide information to directors, as per the board charter	There is no description on the subject. The timing is based on subjects and continuum of the items on the agenda.
The name of the section on the corporate website that demonstrates information about the board charter	In the Articles of Association which can be found in Company Web Site - Investor Relations - Corporate governance policies
Number of maximum external commitments for board members as per the policy covering the number of external duties held by directors	None.

4.5. Board Committees

Page numbers or section names of the annual report where information about the board committees are presented	"2018 Annual Report - Declaration of Corporate Governance Principles and Compliance Report - 5.3. Number, Structure and Independency of Committees Formed under the Board of Directors section"
Link(s) to the PDP announcement(s) with the board committee charters	"Corporate Governance Committee: https://www.kap.org.tr/Bildirim/220675 Audit Committee: https://www.kap.org.tr/Bildirim/202214 Early Risk Detection and Risk Management Committee: https://www.kap.org.tr/Bildirim/238875 "

CORPORATE GOVERNANCE INFORMATION FORM

Composition of Board Committees-I				
Names Of The Board Committees	Name Of Committees Defined As "Other" In The First Column	Name-Surname of Committee Members	Whether Committee Chair Or Not	Whether Board Member Or Not
Audit Committee	-	NESLİHAN TONBUL	Yes	Board member
Audit Committee	-	SERGIO DUCA	No	Board member
Corporate Governance Committee	-	SERGIO DUCA	Yes	Board member
Corporate Governance Committee	-	NESLİHAN TONBUL	No	Board member
Corporate Governance Committee	-	İSMAİL CENK ÇİMEN	No	Board member
Corporate Governance Committee	-	DAVIDE MELE	No	Board member
Corporate Governance Committee	-	FABRIZIO RENZI	No	Not board member
Committee of Early Detection of Risk	-	NESLİHAN TONBUL	Yes	Board member
Committee of Early Detection of Risk	-	SERGIO DUCA	No	Board member
Committee of Early Detection of Risk	-	İSMAİL CENK ÇİMEN	No	Board member
Committee of Early Detection of Risk	-	GIORGIO FOSSATI	No	Board member

4. BOARD OF DIRECTORS-III	
4.5. Board Committees-II	
Specify where the activities of the audit committee are presented in your annual report or website (Page number or section name in the annual report/website)	Corporate Governance Compliance Report, the Board of Directors section
Specify where the activities of the corporate governance committee are presented in your annual report or website (Page number or section name in the annual report/website)	Corporate Governance Compliance Report, the Board of Directors section
Specify where the activities of the nomination committee are presented in your annual report or website (Page number or section name in the annual report/website)	Duties are undertaken by the Corporate Governance Committee
Specify where the activities of the early detection of risk committee are presented in your annual report or website (Page number or section name in the annual report/website)	Corporate Governance Compliance Report, the Board of Directors section
Specify where the activities of the remuneration committee are presented in your annual report or website (Page number or section name in the annual report/website)	Duties are undertaken by the Corporate Governance Committee
4.6. Financial Rights	
Specify where the operational and financial targets and their achievement are presented in your annual report (Page number or section name in the annual report)	Under the sections "Chairman's Message" and "CEO's Assessment"
Specify the section of website where remuneration policy for executive and non-executive directors are presented.	Remuneration Policy for Top-Level Managers and Members of the Board of Directors
Specify where the individual remuneration for board members and senior executives are presented in your annual report (Page number or section name in the annual report)	Remuneration Policy for Top-Level Managers and Members of the Board of Directors

Composition of Board Committees-II

Names Of The Board Committees	Name of committees defined as "Other" in the first column	The Percentage Of Non-executive Directors	The Percentage Of Independent Directors In The Committee	The Number Of Meetings Held In Person	The Number Of Reports On Its Activities Submitted To The Board
Audit Committee	-	100%	100%	6	6
Corporate Governance Committee	-	80%	40%	6	6
Committee of Early Detection of Risk	-	100%	50%	6	6

ACTIVITIES OF THE EARLY DETECTION OF RISK AND RISK MANAGEMENT COMMITTEE

a. Risk Management

A significant portion of commercial risks are managed under the guarantee of the previously signed 'take-or-pay' export contracts conducted with FCA for the allocation of a certain portion of annual factory capacity to export sales. These export contracts provide substantial protection to the Company against cost, profitability, FX and foreign market risks and help keep commercial risks to a minimum.

Looking at the domestic side, 2019 has been a successful year with respect to commercial risk management at our Company. Despite macroeconomic developments and challenging market conditions, our Company successfully increased its market share and rose to leadership position in the market.

Domestic retail sales was nearly 78.6 thousand in 2019, up 8% year-over-year. Egea Sedan model retained leadership in its own segment with a market share of 38.4%.

The financial debt of the Company is composed of long-term bank loans that do not bear foreign exchange risk, and are related to New Doblò, Fiat Egea line and the Fiat Florino revamp facelift project. Revenues and cash flows of these models and projects are covered under the guarantee of export agreements. Other financial debts apart from project loans are those of Koç Fiat Kredi Tüketici Finansmanı A.Ş. FX and interest rate risks were minimized through swap and derivative transactions.

Financial Indicators (TL thousand, unless indicated otherwise)	2019	2018
Total Net Sales	18,897	18,603
Net Profit	1,482	1,330
Total Assets	12,809	13,002
Ratios		
Current Ratio	1.1	1.2
Profit After Tax/Net Sales	8%	7%
Profit After Tax/Total Assets	12%	10%
Profit After Tax/Equity	34%	35%
Total Debt/Equity	91%	147%

b. Activities of the Early Detection of Risk And Risk Management Committee

Early Detection of Risk and Risk Management Committee was established as per the Tofaş Board of Directors resolution dated 1 October 2012 in order to ensure compliance with Article 378 of the Turkish Commercial Code No. 6102, which went into force on 1 July 2012, and also to ensure efficient

operation of the Board Committees. The Committee is responsible for early detection of risks that may threaten the Company's existence, development and continuity, and takes necessary actions relating to identified risks, and manages these risks.

In 2019, 6 meetings were held under the chairmanship of Ms. Neslihan Tonbul, with the participation of committee members Mr. Sergio Duca, Mr. İsmail Cenk Çimen and Mr. Giorgio Fossati.

Following its establishment, the Committee initially evaluated the Risk Management System in place at Tofaş Türk Otomobil Fabrikası A.Ş., and spelled out the principles of risk reporting. Reports produced in accordance with the set principles and the Committee's assessments are being presented for the information of the Board of Directors periodically.

The Company management carefully considers the extent of the impact the Company's operations, risks and financial, commercial and operational results stemming from the risks will have upon the Company, and manages the same proactively. For the purpose of systematically managing risks, the Company management takes necessary measures to define, measure, assess the risks and to mitigate/transfer them when necessary, and ultimately to monitor and report them.

Information was provided about the activities carried out in legal and regulatory matters and about working processes, and relevant considerations were taken into account in Committee meetings. Lawsuits filed against the company and provisions for these lawsuits are also closely monitored and brought to the agenda of the committee.

In 2019, various assessments were made in line with the financial data received from the suppliers taking into consideration various parameters used for determining the financial risks of suppliers (EBITDA %, Liquidity Ratio, Debt Servicing Ratio, ROE, Net Debt/Equity), and the findings were considered by risk committees.

Financial and administrative conditions of suppliers, which are critical to production continuity, are analyzed, upon which evaluation reports are generated. These activities are crucial for early diagnosis of a given supplier's possible technical bankruptcy or inability to supply products; in such a case, the Board of Directors is informed and suggested countermeasures can be developed.

Through the Direct Debit System (DDS), our Company effectively manages the debt payment risks of dealers, and minimizes the risks stemming from the remaining debts by way of credit insurance.

When it is considered that these risky receivables are not likely to be collected, necessary provisions are reserved and the subject is followed through legal processes.

In 2019, the current situation, possible risks (cyber risks) and measures taken regarding the company's IT infrastructure and applications were closely monitored and brought to the agenda of the committee.

NPL ratios and credit allocation policies are regularly monitored also at KFK, an affiliate of our Company, and risk management is carried out successfully.

Risk management at Tofaş has been organized in line with the Risk Management Policy and with the applicable legislation and so as to be reported to the Board of Directors. It is based on the principles of "protecting the Company assets and values", "ensuring commercial, financial and operational confidence" and "sustainability of enterprise risk management".

Additionally, the Company management is financially, commercially, operationally, and organizationally responsible for, and charged with, taking and implementing all necessary measures necessitated by risk management, internal audit and internal control activities.

c. Internal Control System and Internal Audit

An internal control system was built to cover (i) the Company activities and services carried out effectively, reliably and uninterruptedly in conformity with the existing laws and regulations, and (ii) controls made to maintain the integrity, consistency, timeliness and reliability and safety of the accounting and financial reporting system.

Tofaş Türk Otomobil Fabrikası A.Ş. coordinates and carries out an internal audit activity that will provide constant monitoring and assessment of the internal control system.

The Audit Committee has the primary responsibility for monitoring the internal control system and internal audit process. In addition, the Early Detection of Risk and Risk Management Committee takes care to address the related system in conjunction with risk management. The Audit

Committee makes assessments to verify that necessary proactive measures are adopted in relation to the Company's internal control system and internal audit activities, enterprise risk management, financial, commercial and operational risks, and foreseeable potential risks, and that the Company fulfills the responsibilities imposed by the legal regulations in relation to internal control, internal audit and risk management.

Committees' statements and reports are directly presented to the Board of Directors. An internal audit activity is carried out that enables continuous monitoring and evaluation of the Company's internal control system.

Accordingly it has been established as per the Turkish Commercial Code, Capital Market Law and Capital Market legislation, that internal audit activities and the internal control system did function solidly as at year-end 2019 and that there were no important problems about the processes so far. Furthermore, records indicating the healthy functioning of the enterprise risk and internal control systems were kept and it was declared that no important issues were found.

The administrative body maintains a positive opinion about the Company's internal control system and internal audit activities. In the report presented to the Board of Directors, the Committee expresses its positive opinion about the efficiency, adequacy and appropriateness of the internal controls carried out to ensure efficient, reliable and uninterrupted performance of Company activities and services, and to guarantee the integrity, consistency, timely availability, reliability and safety of the data derived from the accounting and financial reporting system, as well as for the activities of internal audit and risk management systems in relation to the preparation of consolidated financial statements.

Furthermore; in this context, the Auditor Report about the Early Risk Detection System Committee prepared by the Independent Audit firm Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst& Young Global Limited) states that: "As a result of our activities we have reached the conclusion that; Tofaş Türk Otomobil Fabrikası A.Ş.'s Early Risk Detection Committee is sufficient in all significant aspects within the framework of the Article 378 of the Turkish Code of Commerce."

AFFILIATED COMPANY REPORT

THE AFFILIATED COMPANY REPORT PREPARED AND ISSUED WITHIN THE SCOPE OF THE 199TH ARTICLE OF THE TURKISH CODE OF COMMERCE

As per the Article 199 of the Turkish Code of Commerce n.6102 (that entered into force on 1 July 2012), Tofaş Türk Otomobil Fabrikası A.Ş. Board of Directors is obligated; (i) to prepare and issue a report within the first quarter of the operating year about the Company's relations with its parent company and affiliated companies of the parent company in the previous operating year, and (ii) to include the conclusion part of this report in the Annual Report. Necessary explanations about Tofaş Türk Otomobil Fabrikası A.Ş.'s transactions with the related parties are available in the footnote 27 of the financial report.

The Report issued by Tofaş Türk Otomobil Fabrikası A.Ş. Board of Directors on 14 February 2020, states: "In all Tofaş Türk Otomobil Fabrikası A.Ş. transactions carried out with the parent company and the affiliated companies of the parent company in 2019; we have concluded that; (i) reasonable return was provided on each transaction according to the circumstances at the time of making the transaction or at the time of taking/not taking measure, and (ii) there were no measures taken/not taken against any transactions that could cause loss for the Company, and (iii) there were no transactions or measures that would require settlement within this framework."

(Convenience translation of a report originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT ON THE EARLY IDENTIFICATION OF THE RISK COMMITTEE AND SYSTEM

To the Board of Directors of TOFAŞ Türk Otomobil Fabrikası Anonim Şirketi,

We have audited the Early Identification of the Risk System and Committee established by TOFAŞ Türk Otomobil Fabrikası Anonim Şirketi.

Responsibility of the Board of Directors

Pursuant to paragraph 1 of Article 378 of the Turkish Commercial Code 6102 ("TCC"), the board of directors is obliged to establish a committee of experts and operate and improve the system for the purposes of: early identification of factors posing a threat on the company's existence, development and continuation; implementation of necessary measures and solutions in this regard; and management of the risk.

Responsibility of the independent auditor

Our responsibility is to express a conclusion on the Early Identification of the Risk System and Committee based on our audit. Our audit was conducted in accordance with TCC and the "Principles on the Independent Auditor's Report on Early Identification of the Risk System and Committee" and ethical requirements as announced by Public Oversight Accounting and Auditing Standards Authority ("POA") of Turkey. These principles require us to determine whether the early identification of the risk system and committee has been established, and if established, to evaluate whether the system and committee operate in accordance with Article 378 of TCC. Our audit does not involve auditing the appropriateness of the solutions on the risks identified by the Early Identification of the Risk System and Committee and the practices performed by the management against the risks.

Information Regarding the Early Identification of the Risk System and Committee

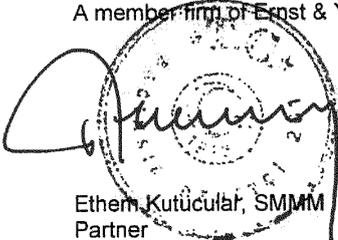
The Company established the Early Identification of the Risk System and Committee which consists of 4 members. For the period between January 1 – December 31, 2019, the committee has met for the purposes of early identification of factors posing a threat on the company's existence and development, implementation of necessary measures and solutions in this regard and the management of the risk; and has submitted the reports it has prepared to the Board of Directors.

Conclusion

Based on our audit, we have reached the conclusion that the early identification of the risk system and committee of TOFAŞ Türk Otomobil Fabrikası Anonim Şirketi is, in all material respects, in compliance with article 378 of the TCC.

The Early Identification of the Risk Committees have to submit their report to the Board of Directors at least bimonthly in accordance with Article 378 of TCC. The Early Identification of the Risk Committee of the Company has submitted their report 6 times during the year to the Board of Directors

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



Ethem Kutucular, SMMM
Partner

Istanbul, February 4, 2020

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ
CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(Originally issued in Turkish)

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

INDEPENDENT AUDITOR'S REPORT



Güney Bağımsız Denetim ve SMMM A.Ş.
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To the Shareholders of TOFAŞ Türk Otomobil Fabrikası Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

1) 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, 2019, 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, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards ("TFRS").

2) 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") 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.

3) 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	
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, 2019 is significant for our audit due to variety of nature of costs and management judgments involved in the capitalization process.	<p>Our audit procedures include, in addition to others, examination of the Group's policies and processes related to 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 judgments 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>

INDEPENDENT AUDITOR'S REPORT

Warranty provision	
<p>As of December 31, 2019, in Note 15, warranty provision on consolidated financial statements is amounting to TL 139.277 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, 2019, in Note 9, provisions for the receivables related to the financial sector operations amounting to TL 2.016.429 thousand is significant for our audit, since the assessments of the Group management during the calculation of the amount of provision are detailed and 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 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>

4) 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.

5) 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.

INDEPENDENT AUDITOR'S REPORT

B) Report on Other Legal and Regulatory Requirements

- 1) Auditors' report on Risk Management and Risk 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 4 February 2020.
- 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 2019 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

4 February 2020
Istanbul, Turkey

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TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER 2019 AND 2018

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

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

		<i>Audited</i>	<i>Audited</i>
	Notes	31 December 2019	31 December 2018
ASSETS			
Current assets:			
Cash and cash equivalents	4	2.825.487	1.981.012
Financial assets	5	568	404.170
Trade receivables			
- Related parties	27	1.255.067	1.059.907
- Third parties	7	888.755	1.037.437
Receivables from finance sector operations	9	1.087.894	1.277.299
Other receivables	8	506	1.385
Inventories	10	749.130	1.076.671
Prepaid expenses	17	70.686	79.105
Current tax assets	25	2.701	8.143
Other current assets	17	88.891	163.168
Total current assets		6.969.685	7.088.297
Non-current assets:			
Receivables from finance sector operations	9	928.535	1.015.830
Other receivables	8	209	173
Investment properties	11	66.000	60.500
Property, plant and equipment	12	2.112.220	2.247.601
Right of use assets		10.639	-
Intangible assets	13	1.658.775	1.579.461
Prepaid expenses	17	73.770	68.334
Deferred tax assets	25	989.454	941.603
Total non-current assets		5.839.602	5.913.502
Total assets		12.809.287	13.001.799

These consolidated financial statements as of and for the year ended 31 December 2019 have been approved for issue by the Board of Directors on 4 February 2020. 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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER 2019 AND 2018

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

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

	Notes	Audited 31 December 2019	Audited (Reclassified) (Note 2.1.2.) 31 December 2018
LIABILITIES			
Current liabilities:			
Short-term financial liabilities	6	25.000	443.876
Short-term portion of long-term financial liabilities	6	1.821.507	2.016.875
Trade payables			
- Related parties	27	1.913.079	1.674.894
- Third parties	7	1.971.755	1.619.089
Employee benefit liabilities	16	130.113	100.188
Other payables	8	28.021	16.060
Contract liabilities	17	27.415	20.189
Derivative instruments	29	-	269
Government incentives and grants	14	6.241	8.374
Deferred income	17	33.100	36.043
Short-term provisions	15	165.659	156.599
Other current liabilities		4.587	5.249
Total current liabilities		6.126.477	6.097.705
Non-current liabilities:			
Long-term financial liabilities	6	2.104.213	2.971.301
Derivative instruments	29	21.448	16.786
Government incentives and grants	14	9.441	13.550
Long-term provisions			
- Provisions for employment termination benefits	16	218.499	195.902
Total non-current liabilities		2.353.601	3.197.539
Total liabilities		8.480.078	9.295.244
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		(67.845)	(37.990)
Other comprehensive losses to be reclassified under profit or losses			
- Cumulative losses on hedging		(1.024.755)	(1.075.625)
Restricted reserves	18	366.881	387.363
Retained earnings		2.724.907	2.254.002
Net profit for the year		1.481.639	1.330.423
Total equity		4.329.209	3.706.555
Total liabilities and equity		12.809.287	13.001.799

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

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

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

		<i>Audited</i>	<i>Audited</i>
	Notes	1 January - 31 December 2019	1 January - 31 December 2018
Revenue	19	18.896.914	18.603.331
Cost of sales (-)	19	(16.510.459)	(16.190.143)
Gross profit from operations		2.386.455	2.413.188
Revenue from finance sector operations		465.762	495.590
Expenses from finance sector operations (-)		(353.606)	(392.632)
Gross profit from finance sector operations		112.156	102.958
Gross profit		2.498.611	2.516.146
General administrative expenses (-)	20	(373.358)	(329.856)
Marketing, selling and distribution expenses (-)	20	(337.093)	(362.325)
Research and development expenses (-)	20	(68.651)	(66.441)
Other income from main operations	22	958.748	3.315.185
Other expense from main operations (-)	22	(1.018.154)	(3.892.403)
Operating profit before financial income		1.660.103	1.180.306
Income from investing activities	23	12.658	34.681
Operating profit before financial income		1.672.761	1.214.987
Financial income	24	1.146.066	2.249.772
Financial expenses (-)	24	(1.362.272)	(2.173.865)
Profit before tax from continuing operations		1.456.555	1.290.894
Tax income for the period		25.084	39.529
- Taxes on income	25	(29.383)	(25.887)
- Deferred tax income	25	54.467	65.416
Net profit for the year		1.481.639	1.330.423
Net profit attributable to:			
Non-controlling interests		-	-
Equity holders of the parent		1.481.639	1.330.423
Earnings per share (Kr)	26	2,96	2,66

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

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

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

		<i>Audited</i>	<i>Audited</i>
	Notes	1 January - 31 December 2019	1 January - 31 December 2018
Net profit for the year		1.481.639	1.330.423
Other comprehensive income:			
Other comprehensive income not to be reclassified under profit and loss			
- Actuarial (loss)/gain on employment termination benefit obligation	16	(37.588)	(1.986)
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	7.733	415
Other comprehensive income to be reclassified under profit and loss			
- Gaining/(losses) on hedging	2	65.219	(509.585)
Taxes relating to other comprehensive income to be reclassified under profit and loss			
- Losses on hedging, tax effect	25	(14.349)	106.324
Other comprehensive (loss)		21.015	(404.832)
Total comprehensive income		1.502.654	925.591
Total comprehensive income attributable to:			
Non-controlling interests		-	-
Parent company interests		1.502.654	925.591

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

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

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

			Other comprehensive income not to be reclassified under profit and loss
	Paid in share capital	Adjustments to share capital	Actuarial loss on employment termination benefit obligation
Balances at 1 January 2018	500.000	348.382	(36.419)
Adjustments related to changing on accounting policy (Note 2.2)	-	-	-
Transfers	-	-	-
Total comprehensive income	-	-	(1.571)
Dividends paid	-	-	-
Balances at 31 December 2018	500.000	348.382	(37.990)
Balances at 1 January 2019	500.000	348.382	(37.990)
Transfers	-	-	-
Total comprehensive income	-	-	(29.855)
Dividends paid	-	-	-
Balances at 31 December 2019	500.000	348.382	(67.845)

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

Other comprehensive income to be reclassified under profit and loss	Retained earnings					
	Loss on cash flow hedge	Restricted reserves	Retained earnings	Net profit for the year	Equity holders of the parent	Total equity
	(672.364)	309.863	1.850.757	1.282.818	3.583.037	3.583.037
	-	-	(2.073)	-	(2.073)	(2.073)
	-	77.500	1.205.318	(1.282.818)	-	-
	(403.261)	-	-	1.330.423	925.591	925.591
	-	-	(800.000)	-	(800.000)	(800.000)
	(1.075.625)	387.363	2.254.002	1.330.423	3.706.555	3.706.555
	(1.075.625)	387.363	2.254.002	1.330.423	3.706.555	3.706.555
	-	75.865	1.254.558	(1.330.423)	-	-
	50.870	-	-	1.481.639	1.502.654	1.502.654
	-	(96.347)	(783.653)	-	(880.000)	(880.000)
	(1.024.755)	366.881	2.724.907	1.481.639	4.329.209	4.329.209

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

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

		<i>Audited</i>	<i>Audited</i>
	Notes	1 January 31 December 2019	1 January 31 December 2018
A. Cash flows from operating activities:		3.656.536	1.336.612
Net profit for the year		1.481.639	1.330.423
Adjustments to reconcile profit for the period		1.172.500	880.231
- Depreciation and amortization	21	760.248	775.054
- Income from revaluation of investment properties	23	(5.500)	(29.325)
- Adjustments related to doubtful receivables	7-9	26.368	29.843
- Adjustments related to interest income	24	(124.212)	(115.433)
- Adjustments related to provision for inventories	10	8.855	752
- Gain on sale of property, plant and equipment	23	(7.158)	(5.356)
- Provision for employment termination benefits	16	47.247	41.395
- Adjustments for reversal of lawsuit and/or penalty provisions		2.687	605
- Adjustments related to warranty provisions	15-20	74.472	109.934
- Adjustments related to interest expense	24	76.337	87.265
- Adjustments for tax losses/income	25	(25.084)	(39.529)
- Deferred financial expenses from credit purchases/sales, net	22	78.477	37.256
- Adjustments related to unrealized gain on foreign currency differences		390.153	343.627
- Adjustments related to exchange differences of cash and cash equivalents		(130.390)	(355.857)
Changes in net working capital		1.171.727	(661.798)
- Change in inventories		318.686	(21.841)
- Change in receivables from third parties		313.740	(61.168)
- Change in receivables from related parties		(195.160)	(100.627)
- Change in other receivables from operating activities		843	(1.225)
- Change in trade payables due to third parties		352.666	(211.018)
- Change in trade payables due to related parties		(31.718)	(598.494)
- Adjustments for increase (decrease) in liabilities arising from customer contracts		7.226	20.189
- Change in receivables from finance sector operations		276.700	242.988
- Change in prepaid expenses		2.983	34.528
- Change in deferred revenue		(2.943)	(20.488)
- Change in government incentives and grants		(6.242)	(8.374)
- Change in other assets from operating activities		74.277	72.586
- Change in other liabilities from operating activities		56.276	(29.140)
- Change in fair value gains on derivative financial instruments		4.393	20.286
Net cash generated from operating activities		3.825.866	1.548.856
- Income taxes paid		(23.941)	(33.044)
- Payments related to employment termination benefits	16	(62.238)	(41.714)
- Other cash outflows		(83.151)	(137.486)
B. - Cash flows from investing activities		(170.185)	(206.428)
- Purchases of tangible assets	12	(278.123)	(329.840)
- Purchases of intangible assets		(429.544)	(232.833)
- Proceeds from sale of tangible and intangible assets		15.000	19.797
- Change in financial assets		403.602	209.641
- Interest received		118.880	126.807
C. Cash flows from financing activities		(2.757.928)	(2.107.933)
- Proceeds from financial liabilities		1.293.553	2.154.761
- Bank loans paid		(3.110.273)	(3.386.522)
- Payment of lease liabilities		(5.403)	-
- Dividend paid		(880.000)	(800.000)
- Interest paid		(75.475)	(87.575)
- Other cash inflows (outflows)		19.670	11.403
Net (decrease)/increase in cash and cash equivalents before currency translation differences		728.423	(977.749)
D. Effects of currency translation differences on cash and cash equivalents		130.390	355.857
Net change in cash and cash equivalents		858.813	(621.892)
E. Cash and cash equivalents at the beginning of the year		1.960.175	2.582.067
Cash and cash equivalents at the end of the year	4	2.818.988	1.960.175

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

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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 FCA Italy 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 Doblò, 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 2019 and 2018 which are subject to consolidation are as follows:

Name of the company	Operating area	Rate of ownership of the Company (%)	
		31 December 2019	31 December 2018
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:

	Average		Period end	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Hourly-rated	5.423	6.922	5.180	6.018
Monthly-rated	1.637	1.747	1.607	1.721
	7.060	8.669	6.787	7.739

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 Financial Reporting Standards ("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 15 April 2019 relating to financial statements presentations.

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 Ministry 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.

Classifications made in the statement of financial position as of December 31, 2018:

In the financial statements, As of December 31, 2018, the effect on IFRS 15 amounting TL 20.189 in "Deferred revenue" are classified under "Contract liabilities" and this classification has no effect on the previous period losses of the related period and net profit for the period.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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

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

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 2019, the amount of guarantee expense is TL 74.472 (31 December 2018: TL 109.934) (Note 15).
- 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 2019, general provisions for finance loans amounted to TL 16.272 (31 December 2018: TL 21.203) 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.
- e) 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.
- f) 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.
- g) Group management has made assumptions based on the experience of the technical staff in determining the useful life of tangible and intangible assets.
- h) 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, 2019 and 2018 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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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

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

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

2.2 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2019 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, 2019. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2019 are as follows:

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.

Transition to TFRS 16:

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

The Group elected 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 that are considered of low value.

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 as of 1 January 2019. In summary the impact of TFRS 16 adoption is expected to be, as follows:

Assets

Right-of-use assets 14.995

Liabilities

Lease liabilities 14.995

The balances and the depreciation and amortization expenses of the right to use assets as of 1 January and 31 December 2019 are as follows:

	Buildings	Vehicles	Total
As of 1 January, 2019	4.818	10.177	14.995
Depreciation expenses	(964)	(3.392)	(4.356)
As of 31 December, 2019	3.854	6.785	10.639

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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

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

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

2.2 The new standards, amendments and interpretations (Continued)

Summary of new accounting policies

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities (Financial liabilities)

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Effects on balance sheet and statements of profit and loss at 31 December 2019 (increase/(decrease):

	Before the change	The Effect of new standard	After the change
Right of use assets	-	10.639	10.639
Deferred tax assets	989.126	328	989.454
Short-term portion of long-term financial liabilities	1.816.104	5.403	1.821.507
Long-term financial liabilities	2.097.486	6.727	2.104.213
Cost of sales (-)	(16.510.721)	262	(16.510.459)
General administrative expenses (-)	(373.993)	635	(373.358)
Marketing expenses (-)	(337.243)	150	(337.093)
Financial expense (-)	(1.359.734)	(2.538)	(1.362.272)
Deferred tax income	54.139	328	54.467
Net profit for the period	1.482.802	(1.163)	1.481.639

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. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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

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

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

2.2 The new standards, amendments and interpretations (Continued)

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:

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

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation did not have a significant impact on the financial position or performance of the Group.

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 capitalization rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019. The amendments did not have a significant 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. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Group and did not have an impact on the 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 amortized 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 amortized cost some prepayable financial assets with so-called negative compensation.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of 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 interim 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.

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.

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

2.2 The new standards, amendments and interpretations (Continued)

TFRS 17 - The new Standard for insurance contracts

The PAO issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. TFRS 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 TFRS 3)

In May 2019, the PAO issued amendments to the definition of a business in TFRS 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 TFRS 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.

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

In June 2019, the PAO issued amendments to TAS 1 Presentation of Financial Statements and TAS 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 TAS 1 and TAS 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. Overall, the Group expects no significant impact on its balance sheet and equity.

Amendments to TFRS 9, TAS 39 and TFRS 7- Interest Rate Benchmark Reform

The amendments issued to TFRS 9 and TAS 39 which are effective for periods beginning on or after January 1, 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in TFRS 9 and TAS 39 is aimed to be disclosed in financial statements based on the amendments made in TFRS 7.

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)

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2022, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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).

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

2.3 Summary of significant accounting policies

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 amortized 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 amortized 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 amortized cost are recognized in the consolidated statement of profit and loss.

"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 amortized cost using the effective interest method.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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

2.3 Summary of significant accounting policies (Continued)

Receivables from finance sector operations

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

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.

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.

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.

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

2.3 Summary of significant accounting policies (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.

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).

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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

2.3 Summary of significant accounting policies (Continued)

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).

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 be 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.

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

2.3 Summary of significant accounting policies (Continued)

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 from 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.

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 2019, the Group has no capitalized borrowing costs (31 December 2018: 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.

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

2.3 Summary of significant accounting policies (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.

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.

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

2.3 Summary of significant accounting policies (Continued)

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.

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 2019, gains on cash flow hedging accounted for under the statement of other comprehensive income are TL 65.219 (31 December 2018: losses amounting to TL 509.585).

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 Doblò, Doblò FL and Doblò 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 Doblò, Doblò FL and Doblò 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 2018 until December 2024.

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.

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

2.3 Summary of significant accounting policies (Continued)

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.

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).

2.4 Changes in significant accounting policies

Tangible and intangible assets:

The Group amortizes its tangible fixed assets and development expenditures related to development projects by using straight-line method in line with the related project lives. In the period of 2019, Group Egea/Tipa and MCV amortization period of car development project has been extended until December 31, 2024. Until 31 December 2018, the amortization date of Egea/Tipa and MCV automobile development projects of the Group is 31 December 2023 and the amortization periods have been extended to 31 December 2024 as of the following day. If these changes were not made, the accumulated depreciation and amortization would be TL 7.426.324 and the current year depreciation and amortization expenses would be TL 921.065.

NOTE 3 - SEGMENT REPORTING

The reportable operational segments for segment reporting as of 31 December 2019 and 2018 are as follows:

2019

	Trading of spare parts and automobile	Consumer financing	Total
Revenue	18.896.914	465.762	19.362.676
Gross profit	2.386.455	112.156	2.498.611
Operating expenses (-)	(747.696)	(31.406)	(779.102)
Other income from main operations	949.248	9.500	958.748
Other expenses from main operations (-)	(993.237)	(24.917)	(1.018.154)
Operating profit	1.594.770	65.333	1.660.103

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NOTE 3 - SEGMENT REPORTING (Continued)

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

The distribution of assets and liabilities of consumer financing segment is followed by TL 1.141.502 in current asset, TL 938.766 in non-current asset as receivables from finance sector operations and TL 970.060 in current liabilities, TL 906.278 in non-current liabilities as financial liabilities.

A significant portion of revenue consists of sales to related parties ratio to 82% (31 December 2018: 87%)(Note 27).

NOTE 4 - CASH AND CASH EQUIVALENTS

	2019	2018
Cash on hand	4	16
Due from banks		
- time deposits	2.717.425	1.907.120
- demand deposits	108.058	73.876
	2.825.487	1.981.012

As of 31 December 2019 and 2018, the details of time deposits are as follows:

	2019		2018	
	Amount	Effective interest rate per annum (%)	Amount	Effective interest rate per annum (%)
EUR	988.708	0,15-0,35	1.184.283	1,90-2,30
TL	1.728.717	10,50-12,00	722.837	23,00-23,25
	2.717.425		1.907.120	

As of 31 December 2019, the maturities of time deposits vary between 2 and 21 days (31 December 2018: between 2 and 29 days).

As of 31 December 2019, the cash at banks comprise time and demand deposits amounting to TL 340.398 (31 December 2018: TL 1.556.962) which are deposited at a bank which is a related party of the Group (Note 27).

As of 31 December 2019 and 2018, the reserves of cash and cash equivalent in cash flow statement;

	2019	2018
Cash and cash equivalents	2.825.487	1.981.012
Less: interest accruals	(6.499)	(1.167)
Less: restricted cash	-	(19.670)
	2.818.988	1.960.175

As of 31 December 2019, the Company does not have any worth of restricted cash consists of required reserve balance of the Central Bank of Turkish Republic (31 December 2018: TL 19.670)

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NOTE 5 - FINANCIAL ASSETS

a) Short-term financial assets

As of 31 December 2019 short-term financial assets of the Group does not have any consists of time deposits. (31 December 2018: TL 403.180 with a maturity of 118-119 days bearing an interest rate of 2,65% - 2,90%).

b) Financial assets to fair value through profit or loss

As of 31 December 2019, the Group has financial assets to fair value through profit or loss amounting to TL 568 (31 December 2018: TL 990).

NOTE 6 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

	2019			2018		
	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
Borrowings in TL ^(*)	-	25.000	12,18	-	40.000	38
		25.000			443.876	

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

	2019			2018		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in TL ^(*)	-	785.458	12,18-37,8	-	857.278	13,97-39,38
Borrowings in EUR	139.612	928.503	Euribor + 0,55% Euribor + 2,90%	150.024	904.344	Euribor + 0,55% Euribor + 2,90%
Bonds ^(1,2)	-	102.143	13,75-15,86	-	255.253	14,85 - 18,76
Borrowings in lease liability	-	5.403		-	-	
		1.821.507			2.016.875	

c) Long-term financial liabilities

	2019			2018		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in EUR	181.477	1.206.930	Euribor +0,55% Euribor + 2,90%	307.559	1.853.966	Euribor + 0,55% Euribor + 2,90%
Borrowings in TL ^(*)	-	799.920	12,18-37,8	-	1.014.836	13,97-39,38
Bonds ^(1,2)	-	90.636	13,75-15,86	-	102.499	14,85 - 18,76
Borrowings in lease liability	-	6.727		-	-	
		2.104.213			2.971.301	

^(*) The whole short-term and long-term bank borrowings which are denominated in TL comprise bank borrowings obtained by KFK, consolidated subsidiary, to finance consumer financing loans as of 31 December 2019 and 2018.

⁽¹⁾ 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.

⁽²⁾ In accordance with the minutes of Board of Directors meeting held on 9 November 2018, based on the required authorization of the Capital Markets Law, the Group issued 24-month maturity bonds on 13 June 2019, with a nominal amount of TL 90.000 and at an interest rate by 13,75%. 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 2019, TL 481.208 (31 December 2018: TL 737.491) of short-term and long-term financial liabilities are obtained through banks which are related parties of the Group (Note 27).

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

The redemption schedule of the long-term bank borrowings as of 31 December 2019 and 2018 is as follows:

	2019	2018
1-2 years	1.310.932	1.510.881
2-3 years	786.554	1.012.747
3-4 years	-	447.673
Total	2.097.486	2.971.301

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

	2019	2018
1 January	5.432.052	5.810.911
Effect of TFRS 16 (Note 2.4)	14.995	-
Effect of cash flows	(1.816.720)	(1.231.761)
Unrealized foreign exchange differences	324.038	853.212
Changes in TFRS 16 – lease liabilities	(2.865)	-
Change in accrual of interest	(780)	(310)
31 December	3.950.720	5.432.052

The carrying amount of loans received from Eximbank in December 2019 is none (31 December 2018: TL 403.876 (equivalent of EUR 67.000)).

The Group has obtained a credit by TL 60.964 (equivalent of EUR 9.167 thousand) (31 December 2018: TL 110.513 (equivalent of EUR 18.333 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 2019.

The Company has obtained a working capital loan from HSBC PLC on 31 March 2014 amounting to TL 27.711 (equivalent of EUR 4.166 thousand) (31 December 2018: TL 75.350 (equivalent of EUR 12.499 thousand)) which has a maturity until 2020.

The Group signed the long-term external financing amounting by EUR 250.000 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 procurator on 17 February 2015, the carrying amount of aforementioned loan which is used on Doblò FL and US projects investments in the consolidated balance sheet is TRY 475.043 (equivalent of EUR 71.429 thousand) (31 December 2018: TRY 645.857 (equivalent of EUR 107.142 thousand)).

The Group signed the loan agreement within the scope of guarantee of SACE amounting to EUR 200.000 with HSBC Bank Plc and ING Bank, a branch of ING-Diba AG as authorized regulators and creditors, HSBC Bank Plc as coordinator corporation and per procurator on 11 August 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 + 2,4%. As of 31 December 2019, the carrying amount of aforementioned loan in the consolidated balance sheet is TRY 613.902 TRY (equivalent of EUR 92.308 thousand) (31 December 2018: TRY 741.907 (equivalent of EUR 123.076 thousand)).

The Group signed the loan agreement within the scope of guarantee of SACE amounting to EUR 70.000 with HSBC Bank Plc and ING Bank, a branch of ING-Diba AG as authorized regulators and creditors, HSBC Bank Plc as coordinator corporation and per procurator on 26 May 2017. 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 + 1.91%. As of 31 December 2019, the carrying amount of aforementioned loan in the consolidated balance sheet is TRY 253.932 TRY (equivalent of EUR 38.182 thousand).

The Group signed the loan agreement amounting to EUR 200.000 with European Bank for Reconstruction and Development, HSBC Bank Plc and Bank of America, N.A., London Branch as authorized regulators and as per procurator of creditors on 22 October 2015. Considering the expected loan usage schedule and average term of the six-monthly paid loan with the due date of December 2022, yearly total cost will be 6 months Euribor + 2.3%. EUR 100 million of the total loan has been used as of 5 November 2015 and the remaining 100.000 Euro is used on March 2016. The remaining balance as of 31 December 2019: TRY 613.902 (equivalent of EUR 92.308 thousand) (31 December 2018: TRY 741.907 (equivalent of EUR 123.076 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. Annual interest is Euribor + 1.80% for five years. The carrying amount of aforementioned loan in the consolidated balance sheet is TRY 88.386 (equivalent of EUR 13.290 thousand) (31 December 2018: TRY 133.520 (equivalent of EUR 22.150 thousand)) as of 31 December 2019.

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	2019	2018
Trade receivables	892.374	1.061.316
Doubtful trade receivables	12.708	8.628
	(12.597)	(8.410)
Less: provision for doubtful receivables		
Less: unearned credit finance income	(3.730)	(24.097)
	888.755	1.037.437

Movement of the provision for doubtful receivables is as follows:

	2019	2018
1 January	8.410	7.146
Collections	4.187	1.264
31 December	12.597	8.410

Collateral received related with trade receivables

As of 31 December 2019, the letter of guarantees amounting to TL 196.645 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 792.306, respectively (31 December 2018: letter of guarantees amounting to TL 121.066, guarantee notes amounting to TL 2.774, mortgages amounting to TL 40.428 and direct debit system limit amounting to TL 776.299).

b) Trade payables

	2019	2018
Trade payables	1.976.672	1.662.085
Less: not accrued credit finance expense	(4.917)	(42.996)
	1.971.755	1.619.089

NOTE 8 - OTHER RECEIVABLES

a) Other receivables

As of 31 December 2019 other receivables included in current and non current assets consist of deposits and guarantees given, personnel advances amounting to TL 715 (31 December 2018: TL 1.558).

b) Other payables

	2019	2018
Other taxes and payables	22.424	11.130
Other	5.597	4.930
	28.021	16.060

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NOTE 9 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS

	2019	2018
Short-term consumer financing loans	1.047.626	1.256.948
Non-performing loans	112.656	81.272
	1.160.282	1.338.220
Provision for specific loan impairment	(70.973)	(50.136)
Provision for general loan impairment	(1.415)	(10.785)
	1.087.894	1.277.299
Long-term consumer financing loans	943.392	1.026.248
Provision for general loan impairment	(14.857)	(10.418)
	928.535	1.015.830

As of 31 December 2019, TL denominated loans originated by the Group, bear interest rates ranging between 0,01% and 3,29% per month (2018: between 0,01% and 3,29% per month).

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

Years	2019	2018
1 to 2 years	579.448	634.955
2 to 3 years	255.828	314.056
3 to 4 years	87.500	66.680
4 years and more	5.759	139
	928.535	1.015.830

Movements in the allowance for loan impairment are as follows:

	2019	2018
1 January	71.339	66.512
Current year provision	22.181	28.579
Collections during the year (-)	(6.275)	(23.752)
31 December	87.245	71.339

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 2019, the fair value of guarantees obtained for the consumer loans amount to TL 2.462.883 (31 December 2018: TL 2.823.106). 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 47.362 (31 December 2018: TL 32.331 TL) as of 31 December 2019.

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NOTE 10 - INVENTORIES

	2019	2018
Raw materials	328.103	286.344
Work-in-progress	262.562	241.445
Finished goods	53.660	167.045
Imported vehicles	3.221	193.379
Spare parts	68.628	89.948
Goods in transit	71.081	127.780
Less: provision for impairment on inventories	(38.125)	(29.270)
Total	749.130	1.076.671

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

	2019	2018
1 January	29.270	28.518
Current year provision	8.855	752
31 December	38.125	29.270

NOTE 11 - INVESTMENT PROPERTIES

For the years ended 31 December 2019 and 2018, the movement of investment properties is as follows:

	2019	2018
1 January, net book value	60.500	31.175
Fair value increase ⁽¹⁾	5.500	29.325
31 December, net fair value	66.000	60.500

⁽¹⁾ As of 31 December 2019, the fair value of the property has been determined as TL 66.000 (31 December 2018: TL 60.500), by using benchmarking method. As a result of the revaluation of the investment property, revaluation gains amounting to TL 5.500 (31 December 2018: TL 29.325) 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 2019 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	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)
Net book value	266.839	1.659.990	242.934	22.143	4.127	51.568	2.247.601
1 January 2019, net book value	266.839	1.659.990	242.934	22.143	4.127	51.568	2.247.601
Additions	-	-	318	2.758	32	275.015	278.123
Disposals	-	(5.063)	(908)	(14.862)	-	-	(20.833)
Disposal - Depreciation	-	4.461	809	7.721	-	-	12.991
Transfers	6.382	229.743	35.846	27.573	8	(299.552)	-
Depreciation charge for the year	(10.588)	(330.119)	(52.540)	(12.010)	(405)	-	(405.662)
31 December 2019, net book value	262.633	1.559.012	226.459	33.323	3.762	27.031	2.112.220
As of 31 December 2019							
Cost	517.488	5.457.606	702.510	93.388	12.790	27.031	6.810.813
Accumulated depreciation	(254.855)	(3.898.594)	(476.051)	(60.065)	(9.028)	-	(4.698.593)
31 December 2019, net book value	262.633	1.559.012	226.459	33.323	3.762	27.031	2.112.220

As of 31 December 2019, there are no pledges or collaterals on property, plant and equipment.

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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 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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NOTE 13 - INTANGIBLE ASSETS

The movement of intangible assets is as follows:

	Development costs ^(*)	Licenses and Other	Total
1 January 2019			
Cost	3.647.513	144.276	3.791.789
Accumulated amortization	(2.118.750)	(93.578)	(2.212.328)
Net book value	1.528.763	50.698	1.579.461
1 January 2019, net book value	1.528.763	50.698	1.579.461
Additions	432.430	10.216	442.646
Amortization charge for the year	(351.762)	(11.570)	(363.332)
31 December 2019, net book value	1.609.431	49.344	1.658.775
As of 31 December 2019			
Cost	4.079.943	154.492	4.234.435
Accumulated amortization	(2.470.512)	(105.148)	(2.575.660)
31 December 2019, net book value	1.609.431	49.344	1.658.775
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

^(*) This amount consists of the development costs incurred within the scope of increasing the efficiency of automobile production and increasing the quality of the automobile and reducing the costs. This amount has been activated within the scope of TAS 16 and TAS 38 and is accounted for intangible assets.

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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 100% VAT exception on machinery and equipment to be imported
- ii) 100% VAT exception on local capital expenditures
- iii) Deducted corporate tax implementation

The Group has considered its investment expenditures amounting to TL 2.462.291 (31 December 2018: TL 2.244.811) in the context of the investment certificate obtained on 2009 and on 2013 in the deferred tax calculation in accordance with the aforementioned law amounting TL 1.136.161 (31 December 2018: TL 1.066.002) (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 2019, total amount of research and development expenses is TL 355.167. The amount subject to corporate income tax R&D allowance is TL 291.719 after deduction of TEYDEB, European and Mess support collected during the year amounting to TL 6.005 and TL 57.443 which is not subject to corporate income tax research and development allowance. (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 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 2019 government incentives of the Group amounting to TL 6.241 (31 December 2018: TL 8.374) short-term, amounting to TL 9.441 (31 December 2019, 13.550) long-term and total TL 15.682 (31 December 2018: TL 21.924) 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 Doblò 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.

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	2019	2018
Provision for warranty claims	139.277	147.956
Provision for legal cases	11.046	8.359
Other	15.336	284
	165.659	156.599

Movement of the provision for warranty is as follows:

	2019	2018
1 January	147.956	135.401
Paid during the year	(83.151)	(90.888)
Increase in provision during the year	74.472	109.934
The effect of IFRS 15	-	(6.491)
31 December	139.277	147.956

The movement of the provision for litigation is as follows:

Litigations against the Group

As of 31 December 2019, the total amount of outstanding legal claims brought against the Group is TL 17.607 (31 December 2018: TL 15.092). The Group has reflected a reserve amounting to TL 11.046 (31 December 2018: TL 8.359) 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 2019 and 2018 is as follows:

	2019		2018			
	TL equivalent	EUR	TL	TL equivalent	EUR	TL
A. Total amount of guarantees provided by the Company on behalf of itself	479.113	2.000	465.812	458.629	37.000	235.593
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	-	-	-	-	-	-
i) Total amount of guarantees provided on behalf of the associates which are not in the scope of B and C	-	-	-	-	-	-
ii) Total amount of guarantees provided on behalf of third parties which are not in the scope of C	-	-	-	-	-	-
Total	479.113	2.000	465.812	458.629	37.000	235.593

Other

As of 31 December 2019, the Group has realized USD 3.238.461.000 thousand of export commitments numbered 2018/D1-03216 to be realized until 17 November 2019 in connection with the export incentive certificates amounting to USD 3.092.520.780 thousand. The Group has realized USD 1.865.512.320 thousand of export commitments in connection with the export incentive certificates amounting to USD 1.176.344.094 thousand.

Furthermore, the Group has realized USD 1.848.879.200 thousand of export commitments numbered 2019/D1-02520 to be realized until 2 September 2019 in connection with the export incentive certificates amounting to USD 473.908.200 thousand. The Group has realized USD 1.198.259.420 thousand of export commitments in connection with the export incentive certificates amounting to USD 213.390.834 thousand.

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NOTE 16 - EMPLOYEE BENEFITS

a) Short-term employee benefits:

	2019	2018
Payables to employees	67.165	43.177
Personnel income tax	25.543	20.769
Social security premiums	21.812	24.511
Unused vacation provision	8.463	5.882
Other	7.130	5.849
Total	130.113	100.188

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 6.379,86 (exact TL) for each period of service as of 31 December 2019 (31 December 2018: TL 5.434,42).

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:

	2019	2018
Discount rate, net (%)	4,67	5,65
Estimated turnover rate for retirement (%)	97,86	98,29

Movement in reserve for employment termination benefits for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
1 January	195.902	194.235
Service expenses	14.453	18.534
Interest expenses	32.794	22.861
Payments during the year	(62.238)	(41.714)
Actuarial loss	37.588	1.986
31 December	218.499	195.902

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

	Net discount rate		Turnover rate related to the probability of retirement	
	0,5% decrease	0,5% increase	0,5% decrease	0,5% increase
Rate (%)	4,17	5,17	97,36	98,36
Change in provision for employee benefits	10.003.395	(6.561.221)	(5.021.212)	2.267.801

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NOTE 17 - PREPAID EXPENSES, DEFERRED INCOME, OTHER ASSETS AND LIABILITIES

a) Other current assets

	2019	2018
Value Added Tax ("VAT")	79.544	145.837
Accrued Social Security Institution Incentives	-	5.488
Other	9.347	11.843
Total	88.891	163.168

b) Short - term prepaid expenses

	2019	2018
Credit commission expenses ^(*)	28.623	38.710
Advances given	19.428	13.079
Other	22.635	27.316
Total	70.686	79.105

^(*) Credit commission expenses are composed of the credit insurance fee and commission given to dealers in advance by KFK as of 31 December 2019 and 2018.

c) Long - term prepaid expenses:

As of 31 December 2019, TL 73.770 (31 December 2018: TL 68.334) of long-term prepaid expenses are composed of advances given for fixed asset purchases amounting to TL 64.633 (31 December 2018: TL 67.110).

d) Deferred income

As of December 31, 2019, TL 33.100 (31 December 2018: 36.043) of the deferred income amounting to TL 23.013 (December 31, 2018: TL 24.995) consists of the received intelligence income in advance of the KFK, consumer receivables amounting to TL 4.588 (31 December: 4.810) and advances received amounting to TL 5.499 (31 December 2018: 6.238).

f) Contract Liabilities

As of 31 December 2019, amounting to TL 27.415 consists of extended warranty under the TFRS 15 (31 December 2018: 20.189).

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 2019 and 2018 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 2019 and 2018, the breakdown of issued share capital of the Company is as follows:

	Share group	2019		2018	
		Amount (historical)	Amount %	Amount (historical)	Amount %
FCA Italy S.p.A.	D	189.280	37,86	189.280	37,86
Koç Holding A.S.	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.

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NOTE 18 - SHAREHOLDER'S EQUITY (Continued)

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.

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 13 March 2019, dividend amounting to TL 880.000 (At 2018; 800.000) related to the profit of 2018 after deduction of legal liabilities, is distributed from retained earnings to the shareholders. As of 31 December 2019 and 2018, dividend distributed per share is Kuruş 1,76 and Kuruş 1,60, respectively.

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

	2019	2018
Legal reserves	366.783	387.266
Extraordinary reserves	27.720	41.481
	394.503	428.747

NOTE 19 - REVENUE AND COST OF SALES

a) Revenue

	2019	2018
Export sales	13.301.313	14.455.023
Domestic sales	5.355.308	3.934.701
Other	240.293	213.607
	18.896.914	18.603.331

The amount of sales discounts is TL 417.412 (31 December 2018: TL 389.027).

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NOTE 19 - REVENUE AND COST OF SALES (Continued)

The distribution of the Group's sales in 2019 and 2018 based on product type is as follows.

	2019	2018
Passenger cars	10.411.031	9.670.938
Commercial vehicles	7.291.410	7.849.632
Spare parts	954.180	869.154
Other	240.293	213.607
	18.896.914	18.603.331
b) Other	2019	2018
Income from scrap sales	97.205	109.712
Income from research and development	55.592	26.017
Package sales income	44.442	48.613
Income from mould sales	27.341	26.198
Revenue from extended warranty sales	2.817	2.372
Other	12.896	695
	240.293	213.607

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	2019	2018
Direct material expense	13.800.509	13.599.141
Depreciation and amortization expense	717.520	741.542
Direct labor expense	269.266	269.149
Other production expenses	576.498	539.291
Change in work-in-process	(21.117)	(36.140)
Change in finished goods	113.385	80.421
Cost of merchandise sold	1.054.297	996.206
Cost of other sales	101	533
	16.510.459	16.190.143

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NOTE 19 - REVENUE AND COST OF SALES (Continued)

d) Production and sales quantities	Production		Sales	
	2019	2018	2019	2018
Manufactured vehicles				
New Doblò	76.529	104.198	76.914	104.516
Egea	72.984	55.901	74.725	57.586
Egea Hatchback	46.342	51.306	46.323	51.325
MCV	41.565	49.693	41.743	49.981
Egea Stationwagon	26.777	40.652	26.789	40.656
Linea	-	-	-	1.461
	264.197	301.750	266.494	305.525
		Import		Sales
	2019	2018	2019	2018
Imported vehicles				
Ducato	1.391	1.195	1.679	2.224
Jeep	1.115	2.677	1.929	2.402
Panda Futura	126	80	137	75
Fiat 500	84	1.075	700	762
Transit Sales	38	34	38	34
Maserati	33	57	48	46
Ferrari	20	17	20	18
Alfa Romeo	-	370	219	189
Fullback	-	177	55	135
Grande Punto	-	2	-	79
Fiat 124 Spider	-	-	-	10
	2.807	5.684	4.825	5.974

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

	2019	2018
General and administrative expenses	373.358	329.856
Marketing expenses	337.093	362.325
Research and development expenses	68.651	66.441
	779.102	758.622
a) General administrative expenses	2019	2018
Personnel expenses	140.363	124.077
Information technology expenses	53.120	37.322
Services obtained from third parties	34.442	39.309
Depreciation and amortization expenses	33.214	26.382
Lawsuit provision expenses	11.816	8.529
Insurance expenses	9.434	8.145
Travel expenses	8.815	7.717
Donations	6.720	6.746
Duties, taxes and levies	6.266	5.590
Other	69.168	66.039
	373.358	329.856
b) Marketing expenses	2019	2018
Personnel expenses	90.185	71.725
Warranty expenses	74.472	109.934
Transportation and insurance expenses	63.020	60.247
Advertisement expenses	53.694	58.389
Travel expenses	6.017	7.331
Depreciation and amortization expenses	5.142	4.429
Other	44.563	50.270
	337.093	362.325
c) Research and development expenses	2019	2018
Personnel expenses	30.273	30.888
Travel expenses	10.236	8.666
Information technology expenses	4.372	2.701
Depreciation and amortization expenses	3.651	3.556
Other	20.119	20.630
	68.651	66.441

NOTE 21 - EXPENSES BY NATURE

Between 1 January – 31 December 2019 Group's personnel and depreciation/amortization expenses are TL 907.408 and TL 760.248 respectively (between 1 January – 31 December 2018: TL 852.757 and TL 775.054 respectively).

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NOTE 22 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	2019	2018
Foreign exchange gains on operating activities	721.026	3.073.774
Interest income on operating activities	191.426	200.633
Other	46.296	40.778
	958.748	3.315.185
	2019	2018
Foreign exchange loss on operating activities	(671.917)	(3.602.866)
Interest expense on operating activities	(269.903)	(237.889)
Other	(76.334)	(51.648)
	(1.018.154)	(3.892.403)

NOTE 23 - INCOME FROM INVESTMENT ACTIVITIES

	2019	2018
Gain on sale of property, plant and equipment	7.158	5.356
Revaluation income of investment property (Note 11)	5.500	29.325
	12.658	34.681

NOTE 24 - FINANCIAL INCOME AND EXPENSES

	2019	2018
Foreign exchange gain	1.016.687	2.114.053
Interest income	124.212	115.433
Gain on derivative financial instruments	5.167	20.286
Total financial income	1.146.066	2.249.772
Foreign exchange loss	(1.282.060)	(2.084.280)
Interest expenses	(76.337)	(87.265)
Other	(3.875)	(2.320)
Total financial expenses	(1.362.272)	(2.173.865)
Financial expenses, net	(216.206)	75.907

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NOTE 25 - TAX ASSETS AND LIABILITIES

Current tax expense and deferred tax

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, 2019 and 2018, 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/TFRS 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.

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, 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%). 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 17th 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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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, 2019 and December 31, 2018, taxes payable are netted off for each subsidiary and are separately classified in the Consolidated Financial Statements.

For the years ended 31 December 2019 and 2018, the analysis of the tax expense in the profit or loss is as follows

	2019	2018
Current tax expense	(29.383)	(25.887)
Deferred tax income	54.467	65.416
	25.084	39.529
	2019	2018
Current corporate tax	29.383	25.887
Less: prepaid corporate tax	(32.084)	(34.030)
Prepaid income tax	(2.701)	(8.143)

The analysis of tax expense accounted for under the statement of profit or loss for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Profit before tax	1.456.555	1.290.894
Income tax charge at effective tax rate (22%)	(320.442)	(283.997)
Disallowable expenses	(11.438)	(745)
Deduction of research and development incentive expenditures during the period	64.178	51.496
Effect of investment incentive, net	202.112	109.147
Used and earned investment incentive	70.159	148.614
Other	20.515	15.014
	25.084	39.529

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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 2019 and 2018, using the effective tax rates were as follows

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2019	2018	2019	2018
Unused investment incentive allowances ^(*)	2.462.291	2.244.811	1.136.161	1.066.002
Provision for employment termination benefits and unused vacation	232.552	206.432	47.956	43.190
Warranty provisions	139.277	147.956	28.897	31.651
Inventories	41.527	50.584	9.136	11.128
Contract liabilities	27.415	20.189	6.031	4.442
Deferred income	15.682	21.923	3.450	4.823
Property, plant and equipment and intangibles	(1.216.665)	(1.023.470)	(245.060)	(211.985)
Land valuations	(113.275)	(107.775)	(11.327)	(10.777)
Other	63.521	9.116	14.210	3.129
Deferred tax asset, net			989.454	941.603

^(*) 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:

	2019	2018
Deferred tax asset at 1 January	941.603	769.448
Deferred tax income	54.467	65.416
Other comprehensive income	(6.616)	106.739
- Actuarial gain/(loss) on employment termination benefit obligation attributable to equity	7.733	415
- Net gain on cash flow hedging attributable to equity	(14.349)	106.324
Deferred tax assets at 31 December	989.454	941.603

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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 2019 and 2018, the weighted average number of shares outstanding is 50.000.000.000 and as of 31 December 2019 and 2018 earnings per share is Kuruş 2,96 and Kuruş 2,66, respectively.

NOTE 27 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related party balances:

Deposit and financial loan balances from related parties	2019	2018
Yapı ve Kredi Bank A.Ş. (deposit) ⁽¹⁾	340.398	1.556.962
Yapı ve Kredi Bank A.Ş. (financial loan) ⁽¹⁾	(481.208)	(737.491)
Trade receivables due from related parties	2019	2018
Fiat ⁽²⁾	1.006.135	570.692
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	245.099	501.049
Other ⁽¹⁾	5.026	4.009
Less: Unearned credit finance expense	(1.193)	(15.843)
	1.255.067	1.059.907
Trade payables due to related parties	2019	2018
Fiat ⁽²⁾	1.788.945	1.573.080
Other ⁽¹⁾	124.180	104.461
Less: Unearned credit finance expense	(46)	(2.647)
	1.913.079	1.674.894
Related party transactions		
Sales	2019	2018
Fiat ⁽²⁾	13.346.419	14.467.193
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	1.988.660	1.551.419
Other ⁽¹⁾	82.840	128.435
	15.417.919	16.147.047

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NOTE 27 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Domestic goods and services purchases	2019	2018
Ram Dış Ticaret A.Ş. ⁽¹⁾	351.351	372.374
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	213.034	170.924
Zer Merkezi Hiz. ve Tic. A.Ş. ⁽¹⁾	117.418	138.070
Mako Elektrik Sanayi ve Ticaret A.Ş. ⁽¹⁾	67.577	214.532
Plastiform Plastik San. Tic. A.Ş. ⁽¹⁾	56.013	53.225
Matay Otomotiv Yan Sanayi ve Tic. A.Ş. ⁽¹⁾	48.223	146.865
Sistemi Comandi Meccanici Otomotiv San. Tic. A.Ş. ⁽¹⁾	47.289	51.528
Koç Holding A.Ş. ^{(2) (*)}	34.746	21.395
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ⁽¹⁾	24.954	24.560
Opet Fuchs Madeni Yağ ve San. Tic. A.Ş. ⁽¹⁾	15.023	15.402
Magneti Marelli Süspansiyon Sistemleri Tic. Ltd. Şti. ⁽¹⁾	14.432	50.555
Setur Servis Turistik A.Ş. ⁽¹⁾	13.236	18.989
Akpa Dayanıklı Tüketim Lpg ve Akaryakıt Ürünleri Paz. A.Ş. ⁽¹⁾	7.815	12.170
Other ⁽¹⁾	45.432	53.006
	1.056.543	1.343.595
Foreign trade good, material and service purchase	2019	2018
Fiat ⁽²⁾	7.671.041	7.701.415
Other ⁽¹⁾	19.040	55.991
	7.690.081	7.757.406

⁽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 2019 is TL 35.344 (31 December 2018: TL 71.028).

Salaries and similar benefits paid to the top management of the Group for the year ended 31 December 2019 (32 person) (31 December 2018: 36 person) is TL 43.588 (2018: TL 33.737). Amounting TL 3.200 is related to payments for leaving of senior management (31 December 2018: None).

Furthermore, as of 31 December 2019, 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 93.398 (31 December 2018: TL 282.535).

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.

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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;

2019	Trade receivables					Receivables from finance operations
	Related parties	Other parties	Other receivables	Bank deposits	Derivative instruments	
Maximum credit risk exposure as of reporting date (A+B+C+D+E) ⁽¹⁾	1.255.067	888.755	715	2.825.487	568	2.016.429
- Maximum risk secured by guarantee ⁽²⁾	33.700	814.350	-	-	-	2.487.178
A. Net book value of financial assets neither overdue nor impaired	1.249.638	837.052	715	2.825.487	568	1.950.204
- Maximum risk secured by guarantee	33.700	783.297	-	-	-	2.462.883
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	5.429	51.592	-	-	-	24.542
- Maximum risk secured by guarantee	-	31.053	-	-	-	24.295
D. Net book value of impaired assets	-	111	-	-	-	41.683
- Overdue (gross book value)	-	12.708	-	-	-	112.656
- Impairment (-)	-	(12.597)	-	-	-	(70.973)
- Net value under guarantee	-	-	-	-	-	-
- Not overdue (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value under guarantee	-	-	-	-	-	47.362
E. Off-balance sheet items having credit risk	-	-	-	-	-	-

2018	Trade receivables					Receivables from finance operations
	Related parties	Other parties	Other receivables	Bank deposits	Derivative instruments	
Maximum credit risk exposure as of reporting date (A+B+C+D+E) ⁽¹⁾	1.059.907	1.037.437	1.558	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	1.558	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	-	-	-	-	-	32.331
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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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:

2019	
1 - 30 days past due	21.683
1 - 3 months past due	12.418
3 - 12 months past due	23.868
1 - 5 years past due	23.594
	81.563
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

Amount secured with guarantee

As of 31 December 2019, TL 5.217 of total past due receivables of the Group is due from the Group's related party, Fiat (31 December 2018: TL 1.379). As of 31 December 2019, the Group's payables to Fiat amounting to TL 1.788.945 (31 December 2018: TL 1.573.080).

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 Egea, Doblò, Mini Cargo are guaranteed by Fiat through future purchases. As of 31 December 2019, loans obtained related with Doblò vehicle project have entirely been repaid.

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

2019	TL equivalent (functional currency)	USD	EUR	Other
1. Trade receivables	1.013.524	1	152.395	-
2a. Monetary financial assets (including cash, bank accounts)	995.234	11	149.636	-
2b. Non-monetary financial assets	89.824	-	13.506	-
3. Other	333	-	50	-
4. Current assets (1+2+3)	2.098.915	12	315.587	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	67.218	-	10.107	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	67.218	-	10.107	-
9. Total assets (4+8)	2.166.133	12	325.694	-
10. Trade payables	(1.855.716)	(984)	(278.151)	-
11. Financial liabilities	(928.503)	-	(139.612)	-
12a. Monetary other liabilities	-	-	-	-
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(2.784.219)	(984)	(417.763)	-
14. Trade payables	-	-	-	-
15. Financial liabilities	(1.206.930)	-	(181.476)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. No n-current liabilities (14+15+16)	(1.206.930)	-	(181.476)	-
18. Total liabilities (13+17)	(3.991.149)	(984)	(599.239)	-
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)	(1.825.016)	(972)	(273.545)	-
21. Net foreign currency asset/(liability) position of monetary items (1+2a+3+5+6a-10-11-12a-14-15-16a)	(1.982.058)	(972)	(297.158)	-
22. Total fair value of financial instruments used for foreign currency hedging	-	-	-	-
23. Export	13.401.561	-	2.103.412	1.427
24. Import	8.146.271	11.562	1.265.218	1.364

⁽¹⁾ The Groups exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in EUR are undertaken by Fiat. Accordingly, net long foreign currency exposure of the Group excluding such borrowings as of 31 December 2019 is TL 65.060.

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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	-	1.496	-
4. Current assets (1+2+3)	2.304.420	95	382.203	-
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	392.203	-
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. No n-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)	(387.731)	(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)	(420.223)	(2)
22. Total fair value of financial instruments used for foreign currency hedging	-	-	-	-
23. Export	14.517.284	-	2.585.655	-
24. Import	8.283.269	5.207	1.493.744	132

⁽⁹⁾ The Groups exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in EUR are undertaken by Fiat. Accordingly, net long foreign currency exposure of the Group excluding such borrowings as of 31 December 2018 is TL 80.739.

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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 2019 and 2018:

Exchange rate sensitivity analysis table

	2019			
	Profit/loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>				
1- USD net asset/liability	(577)	577	-	-
2- Amount hedged for USD risk (-)	-	-	-	-
3- USD net effect (1+2)	(577)	577	-	-
<i>In case 10% appreciation of EUR against TL:</i>				
4- EUR net asset/liability	(197.628)	197.628	-	-
5- Amount hedged for EUR risk (-)	242.084	(242.084)	-	-
6- EUR net effect (4+5)	44.456	(44.456)	-	-
<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)	43.879	(43.879)	-	-
	2018			
	Profit/loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	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)	-	-

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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 2019, and 2018, 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:

	2019	2018
Change in interest rates (%)	0,50	0,50
Effect on net income before for taxes	(309)	(456)

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.

2019

Expected maturities	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between			Over 5 years (IV)
				3-12 months (II)	1 - 5 years (III)		
Non-derivative financial liabilities							
Bank loans	3.745.811	4.099.515	232.958	1.691.357	2.175.200	-	-
Lease liabilities	12.130	12.130	1.351	4.052	6.727	-	-
Trade payables	3.884.834	3.879.871	2.841.090	1.038.781	-	-	-
Bonds	192.779	216.386	3.086	117.128	96.172	-	-
Employee benefit liabilities	130.113	130.113	130.113	-	-	-	-
Other payables	28.021	28.021	28.021	-	-	-	-
	7.993.688	8.366.036	3.236.619	2.851.318	2.278.099		-

Expected maturities (or maturities per agreement)	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 months (I)	Between			Over 5 years (IV)
				3-12 months (II)	1 - 5 years (III)		
Derivative financial assets (net)	21.448	2.046.778	-	-	2.046.778	-	-
Derivative cash inflows							
Derivative cash outflows	21.448	2.046.778	-	-	2.046.778	-	-
	21.448	2.046.778	-	-	2.046.778		-

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

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	5.254.154	58.977	2.346.922	2.848.255	-
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	9.103.998	3.170.396	2.977.480	2.956.122	-
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	-

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 2019.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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

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

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

Consolidated net financial debt/total equity ratio as of 31 December 2019 and 2018 is as follows;

	31 December 2019	31 December 2018
Total borrowing	3.950.720	5.432.052
Cash and cash equivalent	(2.825.487)	(1.981.012)
Net financial debt	1.125.233	3.451.040
Equity	4.329.209	3.706.555
Net financial debt/total equity multiplier	26%	93%

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 14,53% (31 December 2018: 18,46%).

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Consumer financing loans	2.016.429	1.732.476	2.293.129	1.965.935

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, Doblò, New Doblò 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 2018. 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 Doblò to Fiat starting from 2009 until December 2019 and sales of Egea starting from 2018 until December 2023. Additionally, the carrying amount of long - term loan liabilities for Doblò had been covered by sales to Fiat until the beginning of 2009.

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FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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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).

2019

	Level 1	Level 2	Level 3
Investment property	-	66.000	-
Total assets	-	66.000	-
Derivatives held for trading	-	21.448	-
Total Liabilities	-	21.448	-

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	-

As of 31 December 2019, 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

The company is informed by Turkish Employers' Association of Metal Industries (MESS), the employer's union in metal line of business, that the Group Collective Labor Agreement Minutes for the period of 01.09.2019-31.08.2021 between MESS, which the company is a member of, and the Turkish Metal Union is signed. The effect of the signed Collective Labor Agreement is reflected on the consolidated financial statements.

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