

INDEPENDENT AUDITOR'S REPORT



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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, 2021, 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, 2021, 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, 2021 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, 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, testing the accuracy of the relevant amounts, examination of the result of development works and considering the Group's internal management and authorization processes. Additionally, inquiries have been performed with managers of the Group's R&D and sales departments, sales performance of products which start active sales in the market has been examined and recoverability of capitalized development costs for related projects have been assessed.</p> <p>Furthermore, we assessed the appropriateness of the disclosures in the financial statements in Note 13, intangible assets, in terms of TFRS.</p>
Warranty provision	

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<p>As of December 31, 2021, in Note 15, warranty provision on consolidated financial statements is amounting to TL 371,172 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>
<p><i>Receivable from financial sector operations</i></p>	
<p>As of December 31, 2021, in Note 9, provisions for the receivables related to the financial sector operations amounting to TL 4,382,529 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 IAS 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 IAS, 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 3 February 2022.
- 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 2021 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

3 February 2022
Istanbul, Turkey

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TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER 2021 AND 2020

(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 2021	31 December 2020
ASSETS			
Current assets:			
Cash and cash equivalents	4	4,214,726	4,249,809
Financial assets	5	240	1,002
Trade receivables			
- Related parties	27	5,660,932	4,049,339
- Third parties	7	1,481,414	1,443,673
Receivables from finance sector operations	9	2,146,646	1,400,368
Other receivables	8	690	101
Inventories	10	2,379,087	1,523,966
Prepaid expenses	17	72,223	42,328
Current tax assets	25	-	3,537
Other current assets	17	213,590	127,243
Total current assets		16,169,548	12,841,366
Non-current assets:			
Receivables from finance sector operations	9	2,235,883	1,459,500
Other receivables	8	332	234
Investment properties	11	69,285	69,000
Property, plant and equipment	12	1,903,864	2,037,483
Right of use assets		5,088	9,826
Intangible assets	13	1,920,856	1,880,284
Prepaid expenses	17	22,682	78,201
Deferred tax assets	25	1,145,803	1,099,727
Total non-current assets		7,303,793	6,634,255
Total assets		23,473,341	19,475,621

These consolidated financial statements as of and for the year ended 31 December 2021 have been approved for issue by the Board of Directors on 3 February 2022. 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 2021 AND 2020

(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 2021	Audited 31 December 2020
LIABILITIES			
Current liabilities:			
Short-term financial liabilities	6	150,000	50,000
Short-term portion of long-term financial liabilities	6	3,988,262	2,777,079
Trade payables			
- <i>Related parties</i>	27	5,083,471	4,011,979
- <i>Third parties</i>	7	3,684,915	3,472,116
Employee benefit liabilities	16	173,105	141,144
Other payables	8	22,921	19,006
Contract liabilities	17	44,205	36,297
Government incentives and grants	14	4,516	4,516
Deferred income	17	94,784	44,789
Profit and tax liability for the period		50,594	
Short-term provisions	15	454,575	318,239
Other current liabilities		6,441	5,569
Total current liabilities		13,757,789	10,880,734
Non-current liabilities:			
Long-term financial liabilities	6	3,620,796	3,862,706
Derivative instruments	29	2,124	7,276
Government incentives and grants	14	2,135	6,651
Long-term provisions			
- <i>Provisions for employment termination benefits</i>	16	347,106	249,643
Total non-current liabilities		3,972,161	4,126,276
Total liabilities		17,729,950	15,007,010
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			
- <i>Actuarial loss on employment</i>		(149,799)	(81,944)
Other comprehensive losses to be reclassified under profit or losses			
- <i>Cumulative losses on hedging</i>		(1,894,105)	(1,455,424)
Restricted reserves	18	398,178	369,326
Retained earnings		3,259,419	3,004,101
Net profit for the year		3,281,316	1,784,170
Total equity		5,743,391	4,468,611
Total liabilities and equity		23,473,341	19,475,621

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 2021 AND 2020

(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 2021	1 January - 31 December 2020
Revenue	19	29,684,305	23,556,747
Cost of sales (-)	19	(24,065,233)	(20,439,545)
Gross profit from operations		5,619,072	3,117,202
Revenue from finance sector operations		828,704	425,585
Expenses from finance sector operations (-)		(619,313)	(329,179)
Gross profit from finance sector operations		209,391	96,406
Gross profit		5,828,463	3,213,608
General administrative expenses (-)	20	(510,139)	(390,629)
Marketing, selling and distribution expenses (-)	20	(596,791)	(480,225)
Research and development expenses (-)	20	(126,527)	(75,997)
Other income from main operations	22	2,918,260	1,381,427
Other expense from main operations (-)	22	(3,417,547)	(1,582,021)
Operating profit before financial income		4,095,719	2,066,163
Income from investing activities	23	38,455	10,558
Operating profit before financial income		4,134,174	2,076,721
Financial income	24	3,331,176	1,545,965
Financial expenses (-)	24	(3,953,134)	(1,791,910)
Profit before tax from continuing operations		3,512,216	1,830,776
Tax income/(loss) for the period		(230,900)	(46,606)
- Taxes on income	25	(113,178)	(31,884)
- Deferred tax income/(expense)	25	(117,722)	(14,722)
Net profit for the year		3,281,316	1,784,170
Net profit attributable to:			
Non-controlling interests		-	-
Equity holders of the parent		3,281,316	1,784,170
Earnings per share (Kr)	26	6,56	3,57

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 2021 AND 2020

(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 2021	1 January - 31 December 2020
Net profit for the year		3,281,316	1,784,170
Other comprehensive income:			
Other comprehensive income not to be reclassified under profit and loss			
- Actuarial gain/(loss) on employment termination benefit obligation	16	(85,181)	(17,624)
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	17,326	3,525
Other comprehensive income to be reclassified under profit and loss			
- Gaining/(losses) on hedging	2	(585,153)	(552,139)
Taxes relating to other comprehensive income to be reclassified under profit and loss			
- Losses on hedging, tax effect	25	146,472	121,470
Other comprehensive income/(loss)		(506,536)	(444,768)
Total comprehensive income		2,774,780	1,339,402
Total comprehensive income attributable to:			
Non-controlling interests		-	-
Parent company interests		2,774,780	1,339,402

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 2021 AND 2020

(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 2020	500,000	348,382	(67,845)
Transfers	-	-	-
Total comprehensive income	-	-	(14,099)
Dividends paid	-	-	-
Balances at 31 December 2020	500,000	348,382	(81,944)
Balances at 1 January 2021	500,000	348,382	(81,944)
Transfers	-	-	-
Total comprehensive income	-	-	(67,855)
Dividends paid	-	-	-
Balances at 31 December 2021	500,000	348,382	(149,799)

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

Other comprehensive income to be reclassified under profit and loss	Retained earnings					Total equity
	Loss on cash flow hedge	Restricted reserves	Retained earnings	Net profit for the year	Equity holders of the parent	
(1,024,755)	366,881	2,724,907	1,481,639	4,329,209	4,329,209	
-	107,040	1,374,599	(1,481,639)	-	-	
(430,669)	-	-	1,784,170	1,339,402	1,339,402	
-	(104,595)	(1,095,405)	-	(1,200,000)	(1,200,000)	
(1,455,424)	369,326	3,004,101	1,784,170	4,468,611	4,468,611	
(1,455,424)	369,326	3,004,101	1,784,170	4,468,611	4,468,611	
-	136,714	1,647,456	(1,784,170)	-	-	
(438,681)	-	-	3,281,316	2,774,780	2,774,780	
-	(107,862)	(1,392,138)	-	(1,500,000)	(1,500,000)	
(1,894,105)	398,178	3,259,419	3,281,316	5,743,391	5,743,391	

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

(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 2021	1 January - 31 December 2020
A. Cash flows from operating activities:		2,679,899	1,584,410
Net profit for the year		3,281,316	1,784,170
Adjustments to reconcile profit for the period		2,329,659	1,354,390
- Depreciation and amortization	21	1,199,120	758,755
- Income from revaluation of investment properties	23	(285)	(3,000)
- Adjustments related to doubtful receivables	7-9	12,333	21,461
- Adjustments related to interest income	24	(297,041)	(212,300)
- Adjustments related to provision for inventories	10	(4,676)	16,707
- Gain on sale of property, plant and equipment		(38,170)	(7,558)
- Provision for employment termination benefits	16	51,303	42,852
- Adjustments for reversal of lawsuit and/or penalty provisions	15	3,289	3,832
- Adjustments related to warranty provisions	15, 20	245,584	208,479
- Adjustments related to other provisions		20,353	29,547
- Adjustments related to interest expense	24	112,006	104,225
- Adjustments for tax loss/(income)	25	230,900	46,606
- Deferred financial expenses from credit purchases/sales, net	22	(27,573)	(17,081)
- Adjustments related to unrealized gain on foreign currency differences		1,613,731	628,749
- Adjustments related to exchange differences of cash and cash equivalents		(791,215)	(266,884)
Changes in net working capital		(2,700,119)	(1,402,820)
- Change in inventories		(850,445)	(791,543)
- Change in receivables from third parties		513,943	(428,652)
- Change in receivables from related parties		(1,611,593)	(2,794,272)
- Change in other receivables from operating activities		(687)	380
- Change in trade payables due to third parties		212,799	1,500,361
- Change in trade payables due to related parties		547,351	1,968,254
- Adjustments for increase (decrease) in liabilities arising from customer contracts		7,908	8,882
- Change in receivables from finance sector operations		(1,534,964)	(843,439)
- Change in prepaid expenses		25,624	23,927
- Change in deferred revenue		49,995	11,689
- Change in government incentives and grants		(4,516)	(4,515)
- Change in other assets from operating activities		(87,130)	(42,718)
- Change in other liabilities from operating activities		36,748	2,998
- Change in fair value gains on derivative financial instruments		(5,152)	(14,172)
Net cash generated from operating activities		2,910,856	1,735,740
- Income taxes paid		(59,047)	(32,720)
- Payments related to employment termination benefits	16	(39,021)	(29,332)
- Other cash outflows		(132,889)	(89,278)
B. Cash flows from investing activities		(760,779)	(696,999)
- Purchases of tangible assets	12	(379,788)	(333,331)
- Purchases of intangible assets		59,809	15,935
- Proceeds from sale of tangible and intangible assets		(742,403)	(575,394)
- Change in financial assets		762	(434)
- Interest received		300,841	196,225
C. Cash flows from financing activities		(2,741,618)	253,952
- Proceeds from financial liabilities		2,913,480	3,964,695
- Bank loans paid		(4,037,524)	(2,401,935)
- Payment of lease liabilities	6	(7,101)	(6,621)
- Dividend paid		(1,500,000)	(1,200,000)
- Interest paid		(110,473)	(102,187)
Net (decrease)/increase in cash and cash equivalents before currency translation differences		(822,498)	1,141,363
D. Effects of currency translation differences on cash and cash equivalents		791,215	266,884
Net change in cash and cash equivalents		(31,283)	1,408,247
E. Cash and cash equivalents at the beginning of the year		4,227,235	2,818,988
Cash and cash equivalents at the end of the year	4	4,195,952	4,227,235

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 2021

(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. (Stellantis). Tofaş, which is a joint venture of Koç Holding A.Ş. ("Koç Holding") and Stellantis Group, also produces various automotive spare parts used in its automobiles. The Company's head office is located at Büyükdere Cad. No: 145 Zincirlikuyu Şişli, İstanbul. The manufacturing facilities are located at Bursa. The Company manufactures its cars, except for Mini Cargo and New Doblo, pursuant to license agreements between the Company and Stellantis. The Company has been registered with the Turkish Capital Market Board ("CMB") and quoted on the İstanbul Stock Exchange ("ISE") since 1991.

Fiat Chrysler Automobiles signed a merger agreement with the PSA Group at the end of 2019, in which both companies will have a 50% share. Stellantis N.V. was established by merger in January 2021.

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

The Company's subsidiaries as of 31 December 2021 and 2020 which are subject to consolidation are as follows:

Name of the company	Operating area	Rate of ownership of the Company (%)	
		31 December 2021	31 December 2020
Koç Fiat Kredi Finansman A.Ş. ("KFK")	Consumer financing	100	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 2021	31 December 2020	31 December 2021	31 December 2020
Hourly-rated	5,083	5,166	4,955	5,403
Monthly-rated	1,502	1,550	1,527	1,540
	6,585	6,716	6,482	6,943

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 2020 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 Minis TL of Finance. These consolidated financial statements are based on the statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS.

2.1.2 Comparatives and adjustment of prior periods' consolidated financial statements

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

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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (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 Basis of presentation (Continued)

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 2021, the amount of guarantee expense is TL 245,584 (31 December 2020: TL 208,479) (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 2021, general provisions for finance loans amounted to TL 31,019 (31 December 2020: TL 24,134) 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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)
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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

2.1.5 Significant accounting judgments, estimates and assumptions (Continued)

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, 2021 and 2020 since the assumptions used regarding that the Company has taxable profit in following periods

i) The Group, recognised development expenditures on an individual project as an intangible asset when the Group can demonstrate below:

- existence of the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- existence of the intention to complete the intangible asset and use or sell it,
- existence of the ability to use or sell the intangible asset,
- reliability of how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures are recognized as an expense when they are incurred. Development costs previously recognized as an expense are not capitalized as an asset in a subsequent period.

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 (Not 13).

2.2 Changes in Turkish Financial Reporting Standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2021 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, 2021. 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, 2021 are as follows:

Interest Rate Benchmark Reform - Phase 2 - Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16

In December 2020, the POA issued Interest Rate Benchmark Reform - Phase 2, Amendments to TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR, amending the followings. The amendments are effective for periods beginning on or after 1 January 2021.

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying TFRS 4 Insurance Contracts that are using the exemption from TFRS 9 Financial Instruments (and, therefore, apply TAS 39 Financial Instruments: Classification and Measurement) and for TFRS 16 Leases, to lease modifications required by IBOR reform.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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

2.2 Changes in Turkish Financial Reporting Standards (Continued)

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the TAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.
- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.
- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional TFRS 7 Financial Instruments disclosures such as;
How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The amendments did not have a significant impact on the financial position or performance of the Group.

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In June 2020, the POA issued amendments to TFRS 16 Leases to provide relief to lessees from applying TFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the Covid-19 pandemic. In April 7, 2021, POA extended the exemption to include concessions that cause a decrease in lease payments whose maturity expired on or before June 30, 2022.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 April 2021. Early application of the amendments is permitted.

Overall, the Group expects no significant impact on its balance sheet and equity.

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

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

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

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.

Amendments to TFRS 3 - Reference to the Conceptual Framework

In July 2020, the POA issued amendments to TFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of TFRS 3. At the same time, the amendments add a new paragraph to TFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to TFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in TFRS standards (2018 Version).

The Group is in the process of assessing the impact of the amendments on 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 2021 (continued)

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

2.2 Changes in Turkish Financial Reporting Standards (Continued)

Amendments to TAS 16 - Proceeds before intended use

In July 2020, the POA issued amendments to TAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to TAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied retrospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for the first time adopters.

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

Amendments to TAS 37 - Onerous contracts - Costs of Fulfilling a Contract

In July 2020, the POA issued amendments to TAS 37 Provisions, Contingent Liabilities and Contingent assets. The amendments issued to TAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a "directly related cost approach". Amendments must be applied prospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

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

TFRS 17 - The new Standard for insurance contracts

The POA 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 2023; 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.

Amendments to TAS 1- Classification of Liabilities as Current and Non-Current Liabilities

On January 15, 2021, the POA issued amendments to TAS 1 Presentation of Financial Statements. The amendments issued to TAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with TAS 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.

Amendments to TAS 8 - Definition of Accounting Estimates

In August 2021, the POA issued amendments to TAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments issued to TAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the POA. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted.

Overall, the Group expects no significant impact on its balance sheet and equity.

Amendments to TAS 1 - Disclosure of Accounting Policies

In August 2021, the POA issued amendments to TAS 1, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to TAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term 'significant' in TFRS, the POA decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in TFRS and is widely understood by the users of financial statements, according to the POA. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

The Group is in the process of assessing the impact of the amendments on 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 2021 (continued)

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

2.2 Changes in Turkish Financial Reporting Standards (Continued)

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In August 2021, the POA issued amendments to TAS 12, which narrow the scope of the initial recognition exception under TAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to TAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations should be recognized.

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

Annual Improvements - 2018-2020 Cycle

In July 2020, the POA issued Annual Improvements to TFRS Standards 2018-2020 Cycle, amending the followings:

- *TFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter*: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
- *TFRS 9 Financial Instruments - Fees in the "10 per cent test" for derecognition of financial liabilities*: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other's behalf.
- *TAS 41 Agriculture - Taxation in fair value measurements*: The amendment removes the requirement in paragraph 22 of TAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of TAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted for all.

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

2.3 Summary of significant accounting policies

Cash and cash equivalents

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

Financial assets

Classification

The Group classifies its financial assets in three categories; through amortization, through fair value difference reflected in other comprehensive income and through financial assets at fair value through profit and loss. The classification is based on the business model used by the entity for the management of financial assets and the characteristics of the contractual cash flows of the financial assets. The Group classifies its assets at the date of the purchase. Financial assets are not reclassified after initial recognition unless the business model that the Group uses in the management of financial assets change, and in case of a change in business model, the financial assets are reclassified on the first day of the following reporting period.

Recognition and Measurement

Financial assets measured at 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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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

2.3 Summary of significant accounting policies (Continued)

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

Financial Exclusion

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

Impairment

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

Loss provisions were measured on the following basis;

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

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

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

Recognition and Measurement

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

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 overdue at all, by taking into account all the existing data regarding the creditor and based on the principals of reliability and prudence.

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

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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

2.3 Summary of significant accounting policies (Continued)

Trade receivables

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

Trade payables

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

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.

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.

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

2.3 Summary of significant accounting policies (Continued)

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).

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

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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (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 allocation 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 2021, the Group has no capitalized borrowing costs (31 December 2020: 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 is reviewed nor utilization of temporary difference in an estimated period is probable.

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

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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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.

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

2.3 Summary of significant accounting policies (Continued)

Offsetting

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

Foreign currency transactions

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

Segment reporting

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

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

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

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 2021, gains on cash flow hedging accounted for under the statement of other comprehensive loss is TL 585,153 (31 December 2020: income amounting to TL 552,139).

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

There is an effective cash flow hedge relationship between foreign currency originated long term loans and the realized and forecasted sales (items subject to be hedged) of light commercial vehicles (New Doblo, Doblo FL and Doblo US) and commercial vehicles (Egea, Stationwagon, Hatchback). According to the agreements made between the Group and Stellantis, the long-term loan liabilities will be covered by the planned sales of New Doblo, Doblo FL and Doblo US to Stellantis starting from 2009 until December 2022. Furthermore, according to the agreement made between Stellantis and the Group, long term loan liabilities will be covered through a portion of sales of Egea and Stationwagon/ Hatchback to Stellantis starting from 2020 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.

TOFAŞ TÜRK OTOMOBİL FABRİKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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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 tangible fixed assets and development expenses, which it capitalized related to development projects, by using straight-line method in line with the related project lives. In the period of the Group in 2020, the redemption period of Doblo model development projects has been extended until 31 December 2022. The redemption date of the Doblo model development projects of the Group until 31 December 2019 was 31 December 2021 and as of 1 January 2020, the amortization life of the following day was changed to 31 December 2022. If these changes had not been made, as of 31 December 2020, the accumulated depreciation and amortization would have been TRY 8,152,416 and the current year depreciation and amortization expenses would have been TRY 891,912.

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NOTE 3 - SEGMENT REPORTING

The reportable operational segments for segment reporting as of 31 December 2021 and 2020 are as follows:

2021	Trading of spare parts and automobile	Consumer financing	Total
Revenue	29,684,305	828,704	30,513,009
Gross profit	5,619,072	209,391	5,828,463
Operating expenses (-)	(1,198,664)	(34,793)	(1,233,457)
Other income from main operations	2,918,486	(226)	2,918,260
Other expenses from main operations (-)	(3,414,202)	(3,345)	(3,417,547)
Operating profit	3,924,692	171,027	4,095,719
2020	Trading of spare parts and automobile	Consumer financing	Total
Revenue	23,556,747	425,585	23,982,332
Gross profit	3,117,202	96,406	3,213,608
Operating expenses (-)	(916,925)	(29,926)	(946,851)
Other income from main operations	1,378,225	3,202	1,381,427
Other expenses from main operations (-)	(1,569,395)	(12,626)	(1,582,021)
Operating profit	2,009,107	57,056	2,066,163

As of 31 December 2021, the distribution of assets and liabilities of consumer financing segment is followed by TL 2,199,752 (31 December 2020: TL 1,640,232) in current asset, TL 2,250,276 (31 December 2020: TL 1,472,758) in non-current asset as receivables from finance sector operations and TL 2,147,103 TL (31 December 2020: TL 1,223,729) in current liabilities, TL 1,974.038 (31 December 2020: 1,643,221) in non-current liabilities as financial liabilities.

A significant portion of revenue consists of sales to related party's ratio to 67% (31 December 2020: 66%) (Note 27).

The Group management focuses on operating profit before financial expense in segment reporting, so the Group does not distribute financial income and expenses on a segment basis.

NOTE 4 - CASH AND CASH EQUIVALENTS

	2021	2020
Cash on hand	11	4
Due from banks		
- time deposits	4,122,844	4,198,679
- demand deposits	91,871	51,126
	4,214,726	4,249,809

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NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

As of 31 December 2021 and 2020, the details of time deposits are as follows:

	2021		2020	
	Amount	Effective interest rate per annum (%)	Amount	Effective interest rate per annum (%)
EUR	534,916	0.03-0.25	818,118	1.30-2.00
TL	3,587,928	15.50-24.75	3,380,561	17.10-19.10
	4,122,844		4,198,679	

As of 31 December 2021, the maturities of time deposits vary between 3 and 38 days (31 December 2020: between 4 and 39 days).

As of 31 December 2021, the cash at banks comprise time and demand deposits amounting to TL 1,939,244 (31 December 2020: TL 2,212,173) which are deposited at a bank which is a related party of the Group (Note 27).

As of 31 December 2021 and 2020, the reserves of cash and cash equivalent in cash flow statement;

	2021	2020
Cash and cash equivalents	4,214,726	4,249,809
Less: interest accruals	(18,774)	(22,574)
	4,195,952	4,227,235

As of 31 December 2021, the Company does not have any worth of restricted cash consists of required reserve balance of the Central Bank of Turkish Republic (31 December 2020: None)

NOTE 5 - FINANCIAL ASSETS

a) Financial assets to fair value through profit or loss

As of 31 December 2021, the Group has financial assets to fair value through profit or loss amounting to TL 240 (31 December 2020: TL 1,002).

NOTE 6 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

	2021			2020		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in TL ^(*)	-	150,000	20.48	-	50,000	11,55-15,75
		150,000			50,000	

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

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

	2021			2020		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in TL ⁽¹⁾	-	1,467,743	10.92-22.94 Euribor + 0.55%	-	821,416	9.98-26.62 Euribor + 0.55%
Borrowings in EUR	142,754	2,095,952	Euribor + 2.50%	184,582	1,662,695	Euribor + 2.90%
Bonds ^(1,2,3,4)	-	420,815	17.9-20.80	-	286,197	9.60-17.65
Borrowings in lease liability	-	3,752	-	-	6,771	-
		3,988,262			2,777,079	

c) Long-term financial liabilities

	2021			2020		
	Original amount (thousand)	TL equivalent	Interest rate per annum (%)	Original amount (thousand)	TL equivalent	Interest rate per annum (%)
Borrowings in EUR	112,044	1,645,065	Euribor + 0.55% Euribor + 2.50%	246,279	2,218,461	Euribor + 0.55% Euribor + 2.90%
Borrowings in TL ⁽¹⁾	-	1,898,956	17.33-26.25	-	1,636,962	9.98-26.62
Bonds ^(1,2,3,4)	-	70,094	20.35	-	-	-
Borrowings in lease liability	-	6,681	-	-	7,283	-
		3,620,796			3,862,706	

⁽¹⁾ The whole short-term and long-term bank borrowings amounting to 3.516.699 TL (31 December 2020: TL 2.508.378) which are denominated in TL comprise bank borrowings obtained by KFK, consolidated subsidiary, to finance consumer financing loans as of 31 December 2021 and 2020.

⁽²⁾ In accordance with the minutes of Board of Directors meeting held on 28 December 2020, based on the required authorization of the Capital Markets Law, the Group issued 18-months maturity bonds on 12 March 2021, with a nominal amount of TL 75,000 and at an interest rate by 17.95%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Yapı Kredi Yatırım Menkul Değerler A.Ş.

⁽³⁾ In accordance with the minutes of Board of Directors meeting held on 28 December 2020, based on the required authorization of the Capital Markets Law, the Group issued 12-months maturity bonds on 13 April 2021, with a nominal amount of TL 200,000 and at an interest rate by 20.80%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Garanti Yatırım Menkul Kıymetler A.Ş.

⁽⁴⁾ In accordance with the minutes of Board of Directors meeting held on 28 December 2020, based on the required authorization of the Capital Markets Law, the Group issued 10-months maturity bonds on 29 July 2021, with a nominal amount of TL 65,000 and at an interest rate by 20.35%. The bonds have been sold to qualified investors by the closed issuance method through the agency of Yapı Kredi Menkul Değerler A.Ş.

⁽⁵⁾ In accordance with the minutes of Board of Directors meeting held on 8 September 2021, based on the required authorization of the Capital Markets Law, the Group issued 13-months maturity bonds on 5 October 2021, with a nominal amount of TL 150,000 and at an interest rate by 17.90%. The bonds have been sold to qualified investors by the closed issuance method through the agency of İş Yatırım Menkul Kıymetler A.Ş.

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

As of 31 December 2021, TL 627,966 (31 December 2020: TL 764,717) of short-term and long-term financial liabilities are obtained through banks which are related parties of the Group (Note 27).

The redemption schedule of the long-term bank borrowings as of 31 December 2021 and 2020 is as follows:

	2021	2020
1-2 years	2,298,478	2,683,713
2-3 years	1,315,637	687,009
3-4 years	-	484,701
Total	3,614,115	3,855,423

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

The movement of financial liabilities as of 31 December 2021 and 2020 is as follows:

	2021	2020
1 January	6,689,785	3,950,720
Effect of cash flows	(1,124,044)	1,562,760
Unrealized foreign exchange differences	2,198,885	1,180,889
Changes in TFRS 16 - lease liabilities	(7,101)	(6,621)
Change in accrual of interest	1,533	2,037
31 December	7,759,058	6,689,785

The Group signed the long-term external financing amounting by EUR 200,000 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 procuration on 11 August 2015, the carrying amount of aforementioned loan which is used on Doblo FL and US projects investments in the consolidated balance sheet is TRY 451,768 (equivalent of EUR 30,769 thousand) (31 December 2020: TRY 554,332 (equivalent of EUR 61,538 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 procuration 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 2021, the carrying amount of aforementioned loan in the consolidated balance sheet is TRY 186,868 (equivalent of EUR 12,728 thousand) (31 December 2020: TRY 229.292 (equivalent of EUR 25,455 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 procuration 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 2021: TRY 452,187 (equivalent of EUR 30,798 thousand) (31 December 2020: TRY 554,332 (equivalent of EUR 61,538 thousand)).

The Group signed the loan agreement amounting to EUR 130.000 thousand with Akbank AG for MCA investment as of 16 March 2021. Yearly total cost will be 4 years Euribor + 2.00%. The carrying amount of aforementioned loan in the consolidated balance sheet is TRY 1,636,433 (equivalent of EUR 111,458) 31 December 2020: TRY 1,171,027 (equivalent of EUR 130,000 thousand)).

The Group signed the loan agreement amounting to EUR 70,000 thousand with TEB for MCA investment purpose as of 12 May 2020. Yearly total cost will be 4 years Euribor + 2.00%. The carrying amount of aforementioned loan in the consolidated balance sheet is TRY 881,612 (equivalent of EUR 60,045) (31 December 2020: 630,553 (equivalent of EUR 70,000 thousand)).

The Group signed the loan agreement amounting to EUR 10,000 thousand with Hsbc Bank A.Ş. for financing purpose as of 30 September 2020. Yearly total cost will be until December 2022 1.30%. The carrying amount of aforementioned loan in the consolidated balance sheet is TRY 73,416 (equivalent of EUR 5,000) (31 December 2020: 90,079 (equivalent of EUR 10,000 thousand)).

The Group signed the loan agreement amounting to EUR 64,000 thousand with İşbank AG for Financing purpose as of 2 March 2021. Yearly total cost will be until December 2022 Euribor + 2.50%. The carrying amount of aforementioned loan in the consolidated balance sheet is TRY 58,733 (equivalent of EUR 4,000 thousand) as of 31 December 2021.

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	2021	2020
Trade receivables	1,536,121	1,470,484
Doubtful trade receivables	14,504	12,697
Less: provision for doubtful receivables	(12,508)	(12,478)
Less: unearned credit finance income	(56,703)	(27,030)
	1,481,414	1,443,673

Movement of the provision for doubtful receivables is as follows:

	2021	2020
1 January	12,478	12,597
Changes in current period, net	30	(119)
31 December	12,508	12,478

Collateral received related with trade receivables

As of 31 December 2021, the letter of guarantees amounting to TL 284,112 guarantee cheques and notes amounting to TL 2,224 mortgages amounting to TL 41,973 and direct debit system limit (payment guarantee limit secured by the banks) obtained as collateral for Group's trade receivables amount to TL 1,687,550, respectively (31 December 2020: letter of guarantees amounting to TL 341,918, guarantee notes amounting to TL 2,274, mortgages amounting to TL 40,428 and direct debit system limit amounting to TL 1,327,344).

b) Trade payables

	2021	2020
Trade payables	3,777,652	3,517,731
Less: not accrued credit finance expense	(92,737)	(45,615)
	3,684,915	3,472,116

NOTE 8 - OTHER RECEIVABLES

a) Other receivables

As of 31 December 2021 other receivables included in current and non current assets consist of deposits and guarantees given, personnel advances amounting to TL 1,022 (31 December 2020: TL 335).

b) Other payables

	2021	2020
Taxes and payables	15,659	13,194
Other	7,262	5,812
	22,921	19,006

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NOTE 9 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS

	2021	2020
Short-term consumer financing loans	2,152,380	1,392,115
Non-performing loans	69,859	74,408
	2,222,239	1,466,523
Provision for specific loan impairment	(60,483)	(64,022)
Provision for general loan impairment	(15,110)	(2,133)
	2,146,646	1,400,368
Long-term consumer financing loans	2,251,792	1,481,501
Provision for general loan impairment	(15,909)	(22,001)
	2,235,883	1,459,500

As of 31 December 2021, TL denominated loans originated by the Group, bear interest rates ranging between 0.01% and 3.09% per month (2020: between 0.01% and 3.29% per month).

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

Years	2021	2020
1 to 2 years	1,334,676	785,139
2 to 3 years	756,038	491,172
3 to 4 years	145,139	182,770
4 years and more	30	419
	2,235,883	1,459,500

Movements in the allowance for loan impairment are as follows:

	2021	2020
1 January	88,156	87,245
Current year provision	12,303	21,580
Collections during the year (-)	(8,957)	(20,669)
31 December	91,502	88,156

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 2021, the fair value of guarantees obtained for the consumer loans amount to TL 5,558,899 (31 December 2020: 3,560,413). 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 11,101 (31 December 2020: TL 19,663 TL) as of 31 December 2021.

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NOTE 10 - INVENTORIES

	2021	2020
Raw materials	851,840	427,515
Goods in transit	744,732	359,945
Work-in-progress	382,552	251,256
Finished goods	287,951	172,998
Spare parts	147,730	109,686
Imported vehicles	14,438	257,398
Less: provision for impairment on inventories	(50,156)	(54,832)
Total	2,379,087	1,523,966

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

	2021	2020
1 January	54,832	38,125
Current year provision	(4,676)	16,707
31 December	50,156	54,832

NOTE 11 - INVESTMENT PROPERTIES

For the years ended 31 December 2021 and 2020, the movement of investment properties is as follows:

	2021	2020
1 January, net book value	69,000	66,000
Fair value increase ⁽¹⁾	285	3,000
31 December, net fair value	69,285	69,000

⁽¹⁾ As of 31 December 2021, the fair value of the property has been determined as TL 69,285 (31 December 2020: TL 69,000), by using benchmarking method. As a result of the revaluation of the investment property, revaluation gains amounting to TL 285 (31 December 2020: TL 3,000) 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 2021 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	522,418	5,690,746	744,986	93,911	15,269	54,688	7,122,018
Accumulated depreciation	(265,622)	(4,210,075)	(532,091)	(67,049)	(9,698)	-	(5,084,535)
Net book value	256,796	1,480,671	212,895	26,862	5,571	54,688	2,037,483
As of 31 December 2021							
1 January 2021, net book value	256,796	1,480,671	212,895	26,862	5,571	54,688	2,037,483
Additions	-	-	1,074	5,416	59	373,239	379,788
Disposals	(10)	(7,061)	(5,903)	(36,295)	-	-	(49,269)
Disposal - Depreciation	5	6,910	5,186	15,530	-	-	27,631
Transfers	13,618	251,546	56,405	58,823	311	(380,703)	-
Depreciation charge for the year	(19,693)	(390,416)	(63,363)	(17,414)	(883)	-	(491,769)
31 December 2021, net book value	250,716	1,341,650	206,294	52,922	5,058	47,224	1,903,864
As of 31 December 2021							
Cost	536,026	5,935,231	796,562	121,855	15,639	47,224	7,452,537
Accumulated depreciation	(285,310)	(4,593,581)	(590,268)	(68,933)	(10,581)	-	(5,548,673)
31 December 2021, net book value	250,716	1,341,650	206,294	52,922	5,058	47,224	1,903,864

As of 31 December 2021, 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 2020 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	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)
Net book value	262,633	1,559,012	226,459	33,323	3,762	27,031	2,112,220
1 January 2020, net book value	262,633	1,559,012	226,459	33,323	3,762	27,031	2,112,220
Additions	-	-	2,119	1,974	2,438	326,800	333,331
Disposals	-	(4,624)	(6,250)	(11,252)	-	-	(22,126)
Disposal - Depreciation	-	3,882	5,940	3,927	-	-	13,749
Transfers	4,930	237,764	46,607	9,801	41	(299,143)	-
Depreciation charge for the year	(10,767)	(315,363)	(61,980)	(10,911)	(670)	-	(399,691)
31 December 2020, net book value	256,796	1,480,671	212,895	26,862	5,571	54,688	2,037,483
As of 31 December 2020							
Cost	522,418	5,690,746	744,986	93,911	15,269	54,688	7,122,018
Accumulated depreciation	(265,622)	(4,210,075)	(532,091)	(67,049)	(9,698)	-	(5,084,535)
31 December 2020, net book value	256,796	1,480,671	212,895	26,862	5,571	54,688	2,037,483

As of 31 December 2020, 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 ⁽¹⁾	Licenses and Other	Total
1 January 2021			
Cost	4,666,749	165,988	4,832,737
Accumulated amortization	(2,835,561)	(116,892)	(2,952,453)
Net book value	1,831,188	49,096	1,880,284
1 January 2021, net book value	1,831,188	49,096	1,880,284
Additions	739,585	16,541	756,126
Amortization charge for the year	(702,512)	(13,042)	(715,554)
31 December 2021, net book value	1,868,261	52,595	1,920,856
As of 31 December 2021			
Cost	5,406,334	182,529	5,588,863
Accumulated amortization	(3,538,073)	(129,934)	(3,668,007)
31 December 2021, net book value	1,868,261	52,595	1,920,856
	Development costs ⁽¹⁾	Licenses and Other	Total
1 January 2020			
Cost	4,079,943	154,492	4,234,435
Accumulated amortization	(2,470,512)	(105,148)	(2,575,660)
Net book value	1,609,431	49,344	1,658,775
1 January 2020, net book value	1,609,431	49,344	1,658,775
Additions	586,806	11,496	598,302
Amortization charge for the year	(365,049)	(11,744)	(376,793)
31 December 2020, net book value	1,831,188	49,096	1,880,284
As of 31 December 2020			
Cost	4,666,749	165,988	4,832,737
Accumulated amortization	(2,835,561)	(116,892)	(2,952,453)
31 December 2020, net book value	1,831,188	49,096	1,880,284

⁽¹⁾ 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 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:

- 100% exemption from customs duty and 100% VAT exception on machinery and equipment to be imported
- 100% VAT exception on local capital expenditures
- Deducted corporate tax implementation

The Group has considered its investment expenditures amounting to TL 1,887,183 (31 December 2020: TL 2,514,720) 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 866,423 (31 December 2020: TL 1,171,242) (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 2021, total amount of research and development expenses is TL 727,622. The amount subject to corporate income tax R&D allowance is TL 228,226 after deduction of TEYDEB, European and Mess support collected during the year amounting to TL 10,812 and TL 488,584 which is not subject to corporate income tax research and development allowance. (As of 31 December 2020, total amount of research and development expenses is TL 582,929 The amount subject to corporate income tax R&D allowance is TL 182,488 after deduction of TEYDEB support collected during the year amounting to TL 5,004 and TL 395,437 which is not subject to corporate income tax research and development allowance).

As of 31 December 2021, government incentives of the Group amounting to TL 4,516 (31 December 2020: TL 4,516) short-term, amounting to -2,135 (31 December 2020: TL 6,651) long-term and total TL 6,649 (31 December 2020: TL 11,167) long term, have been originated from deferral of research and development incentive premiums provided to support research and development expenditures of Mini Cargo and New Doblo projects by the Scientific & Technological Research Council of Turkey (Tübitak). The related balance will be offset on amortization expense in cost of goods sold in line with the amortization terms of the research and development investments.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	2021	2020
Provision for warranty claims	371,172	258,478
Provision for legal cases	18,167	14,878
Other	65,236	44,883
	454,575	318,239

Movement of the provision for warranty is as follows:

	2021	2020
1 January	258,478	139,277
Paid during the year	(132,890)	(89,278)
Increase in provision during the year	245,584	208,479
31 December	371,172	258,478

Litigations against the Group

As of 31 December 2021, the total amount of outstanding legal claims brought against the Group is TL 25,165 (31 December 2020: TL 21,359). The Group has reflected a reserve amounting to TL 18,167 (31 December 2020: TL 14,878) in the consolidated financial statements.

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

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 2021 and 2020 is as follows:

	2021		2020			
	TL equivalent	KEUR	TL equivalent	TL equivalent	KEUR	TL
A. Total amount of guarantees provided by the Company on behalf of itself	171,433	2,000	142,068	175,945	2,000	157,929
B. Total amount of guarantees provided on behalf of the associates accounted under full consolidation method	-	-	-	-	-	-
C. Provided on behalf of third parties in order to maintain operating activities (to secure third party payables)	-	-	-	-	-	-
D. Other guarantees given	-	-	-	-	-	-
i) Total amount of guarantees given on behalf of the parent Company	-	-	-	-	-	-
ii) Total amount of guarantees provided on behalf of the associates which are not in the scope of B and C	-	-	-	-	-	-
iii) Total amount of guarantees provided on behalf of third parties which are not in the scope of C	-	-	-	-	-	-
Total	171,433	2,000	142,068	175,945	2,000	157,929

Other

As of 31 December 2021, the Group has realized USD 2,831,515,000 thousand of export commitments numbered 2020/D1-03216 to be realized until 21 February 2022 in connection with the export incentive certificates amounting to USD 2,600,296,881 thousand. The Group has realized USD 1,771,268,790 thousand of export commitments in connection with the export incentive certificates amounting to USD 1,324,995,294 thousand.

Furthermore, the Group has realized USD 1,533,252,000 thousand of export commitments numbered 2021/D1-02520 to be realized until 3 March 2022 in connection with the export incentive certificates amounting to USD 769.396.294 thousand. The Group has realized USD 954,474,800 thousand of export commitments in connection with the export incentive certificates amounting to USD 486,104,029 thousand.

NOTE 16 - EMPLOYEE BENEFITS

a) Short-term employee benefits:

	2021	2020
Personnel income tax	56,915	38,443
Payables to employees	53,414	59,835
Social security premiums	41,532	23,615
Unused vacation provision	9,279	8,862
Other	11,965	10,389
Total	173,105	141,144

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

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 8,284,51 (exact TL) for each period of service as of 31 December 2021 (31 December 2020: TL 7,117,17). The maximum severance pay is revised semi-annually, and the maximum amount of 10,848.59 full TL (1 January 2021: 7,638.96 full TL) effective as of 1 January 2022 has been taken into account in the calculation of the consolidated severance pay provision.

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:

	2021	2020
Discount rate, net (%)	4.45	4.63
Estimated turnover rate for retirement (%)	97.48	97.98

Movement in reserve for employment termination benefits for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
1 January	249,643	218,499
Service expenses	18,823	14,447
Interest expenses	32,480	28,405
Payments during the year	(39,021)	(29,332)
Actuarial loss	85,181	17,624
31 December	347,106	249,643

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of 31 December 2021 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 (%)	3.95	4.95	96.98	97.98
Change in provision for employee benefits	(1,237)	2,302	(2,426)	5,782

NOTE 17 - PREPAID EXPENSES, DEFERRED INCOME, OTHER ASSETS AND LIABILITIES

a) Other current assets

	2021	2020
Value Added Tax ("VAT")	198,669	119,458
Other	14,921	7,785
Total	213,590	127,243

b) Short - term prepaid expenses

	2021	2020
Credit commission expenses ⁽¹⁾	35,078	23,905
Advances given	17,191	3,293
Insurance Expense	7,087	5,515
Other	12,867	9,615
Total	72,223	42,328

⁽¹⁾ Credit commission expenses are composed of the credit insurance fee and commission given to dealers in advance by KFK as of 31 December 2021 and 2020.

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NOTE 17 - PREPAID EXPENSES, DEFERRED INCOME, OTHER ASSETS AND LIABILITIES (Continued)

c) Long - term prepaid expenses:

As of 31 December 2021, TL 22,682 (31 December 2020: TL 78,201) of long-term prepaid expenses are composed of advances given for fixed asset purchases amounting to TL 16,435 (31 December 2020: TL 59,916).

d) Short - term deferred income

As of December 31, 2021, TL 94,784 (31 December 2020: 44,789) of the deferred income amounting to TL 59,460 (31 December 2020: TL 34,443) consists of the received loan allocation fees in advance of the KFK, consumer receivables amounting to TL 13,601 (31 December 2020: TL 5,798) and advances received amounting to TL 21,723 (31 December 2020: TL 4,548).

e) Contract liabilities

As of 31 December 2021, amounting to TL 44,205 consists of extended warranty under the TFRS 15 (31 December 2020: 36,297).

NOTE 18 - SHAREHOLDER'S EQUITY

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

Registered capital ceiling of the Company is 1,000,000 (exact TL). The Company's historical authorized and issued share capital as of 31 December 2021 and 2020 is KTL 500,000,000 (exact TL) and consists of 50 billion shares with TL 0.01 (exact TL) par value each. As of 31 December 2021 and 2020, the breakdown of issued share capital of the Company is as follows:

	Share group	2021		2020	
		Amount (historical)	Amount %	Amount (historical)	Amount %
FCA Italy S.p.A.	D	189,280	37.86	189,280	37.86
Koç Holding A.Ş.	A	187,938	37.59	187,938	37.59
Koç Holding companies and Koç Family	A	1,342	0.27	1,342	0.27
Other, including publicly traded shares	E	121,440	24.28	121,440	24.28
Total paid in share capital		500,000	100	500,000	100

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

b) Legal reserves - retained earnings

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

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

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 53. General Assembly Meeting held on 16 March 2021, dividend amounting to TL 1,500,000 (At 2020: 1,200,000) related to the profit of 2020 after deduction of legal liabilities, is distributed from retained earnings to the shareholders. As of 31 December 2021 and 2020, dividend distributed per share is Kuruş 3.00 and Kuruş 2.40, respectively.

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NOTE 19 - REVENUE AND COST OF SALES

a) Revenue	2021	2020
Export sales	14,643,275	10,821,043
Domestic sales	14,264,210	12,441,509
Other	776,820	294,195
	29,684,305	23,556,747

The amount of sales discounts is TL 1,179,292 (31 December 2020: TL 753,084).

The distribution of the Group's sales in 2021 and 2020 based on product type is as follows.

	2021	2020
Passenger cars	13,679,017	12,878,437
Commercial vehicles	13,625,246	9,308,213
Spare parts	1,603,222	1,075,902
Other	776,820	294,195
	29,684,305	23,556,747

b) Other	2021	2020
Income from scrap sales	185,108	115,585
Income from research and development	180,131	64,538
Income from mould sales	90,620	9,076
Package sales income	38,365	26,080
Revenue from extended warranty sales	10,353	5,438
Other	272,243	73,478
	776,820	294,195

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	2021	2020
Direct material expense	19,842,600	16,986,660
Cost of merchandise sold	2,207,860	2,002,777
Depreciation and amortization expense	1,140,373	711,894
Other production expenses	707,723	554,408
Direct labor expense	412,608	291,781
Change in work-in-process	(131,296)	11,306
Change in finished goods	(114,953)	(119,338)
Cost of other sales	318	57
	24,065,233	20,439,545

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NOTE 19 - REVENUE AND COST OF SALES (Continued)

d) Production and sales quantities	Production		Sales	
	2021	2020	2021	2020
Manufactured vehicles				
Yeni Doblo	77,520	68,798	77,626	67,663
Egea	65,641	98,614	65,461	98,524
Egea Hatchback	43,359	36,223	43,285	35,994
MCV	34,345	30,096	34,437	30,202
Egea Stationwagon	7,679	16,899	7,638	16,817
	228,544	250,630	228,447	249,200
	Import		Sales	
	2021	2020	2021	2020
Imported vehicles				
Jeep	1,954	5,506	2,906	4,587
Ducato	1,976	4,089	2,243	3,841
Fiat 500	313	1,656	635	1,300
Panda Futura	146	307	235	219
Alfa Romeo	129	282	172	241
Maserati	100	54	101	51
Ferrari	36	22	35	22
Transit satış	12	17	12	17
Fullback	-	-	-	1
	4,666	11,933	6,339	10,279

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

	2021	2020
General and administrative expenses	510,139	390,629
Marketing expenses	596,791	480,225
Research and development expenses	126,527	75,997
	1,233,457	946,851
a) General administrative expenses	2021	2020
Personnel expenses	197,589	151,456
Information technology expenses	76,267	55,172
Depreciation and amortization expenses	42,021	34,633
Services obtained from third parties	35,303	33,224
Insurance expenses	12,560	10,606
Donations	11,468	11,826
Duties, taxes and levies	11,695	8,494
Lawsuit provision expenses	8,221	10,615
Travel expenses	4,386	4,579
Other	110,629	70,024
	510,139	390,629

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

b) Marketing expenses	2021	2020
Warranty expenses	245,585	208,479
Transportation and insurance expenses	118,602	92,848
Personnel expenses	132,067	91,483
Advertisement expenses	43,661	38,432
Depreciation and amortization expenses	5,472	5,401
Travel expenses	4,072	2,978
Other	47,332	40,604
	596,791	480,225

c) Research and development expenses	2021	2020
Personnel expenses	67,846	40,766
Travel expenses	4,571	6,456
Information technology expenses	8,927	5,592
Depreciation and amortization expenses	11,253	6,827
Other	33,930	16,356
	126,527	75,997

NOTE 21 - EXPENSES BY NATURE

Between 1 January - 31 December 2021 Group's personnel and depreciation/amortization expenses are TL 1,241,339 and TL 1,199,120 respectively (between 1 January - 31 December 2020: TL 916,840 and TL 758,755 respectively).

NOTE 22 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	2021	2020
Foreign exchange gains on operating activities	2,288,024	1,186,076
Interest income on operating activities	551,714	147,727
Other	78,522	47,624
	2,918,260	1,381,427

	2021	2020
Foreign exchange loss on operating activities	(2,781,256)	(1,365,275)
Interest expense on operating activities	(524,141)	(130,646)
Other	(112,150)	(86,100)
	(3,417,547)	(1,582,021)

NOTE 23 - INCOME FROM INVESTMENT ACTIVITIES

	2021	2020
Gain on sale of property, plant and equipment	38,170	7,558
Revaluation income of investment property (Note 11)	285	3,000
	38,455	10,558

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NOTE 24 - FINANCIAL INCOME AND EXPENSES

	2021	2020
Foreign exchange gain	3,027,206	1,333,665
Interest income	297,041	212,300
Gain on derivative financial instruments	6,929	-
Total financial income	3,331,176	1,545,965
Foreign exchange loss	(3,834,253)	(1,680,213)
Interest expenses	(112,006)	(104,225)
Other	(6,875)	(7,472)
Total financial expenses	(3,953,134)	(1,791,910)
Financial expenses, net	(621,958)	(245,945)

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 25% (23% for taxation periods of 2022, 20% for taxation period of 2023 and after) over the bases declared in interim periods during the year to be deducted from the corporation tax.

As of December 31, 2021 and 2020, the tax provision has been set aside under the current tax legislation.

A tax rate of 25% is used for temporary differences that are expected to be realized/closed in 2022, and 20% for temporary differences that are expected to be realized/closed in 2022 and after.

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 25% (However, it will be applied as 23% for the corporate earnings of the institutions for the 2022 taxation periods, and 20% for the year 2023 and beyond.) The corporate tax rate is the addition of the expenses that are not considered to be deductible in accordance with the tax laws to the commercial income of the corporations. is applied to the net corporate income to be found as a result of deducting the exceptions and deductions in the tax laws. Corporate tax is declared until the evening of the thirtieth 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.

Companies calculate a provisional tax of 25% on their quarterly financial profits (23% for the taxation periods of 2022, 20% for the year 2023 and beyond) and declare until the 17th day of the second month following that period and pay it until the evening of the seventeenth day. The temporary tax paid during the year belongs to that year and is deducted from the corporate tax to be calculated over the corporate tax return to be submitted in the following year. If the amount of temporary tax paid remains despite the deduction, this amount can be refunded in cash or set off against any other financial debt to the government.

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 within five years of tax.

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

Tax assets and liabilities (Continued)

Corporation tax (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, 2021 and December 31, 2020, taxes payable is netted off for each subsidiary and are separately classified in the Consolidated

Financial Statements.

With the "Law Amending the Tax Procedure Law and the Corporate Tax Law", which was accepted on the agenda of the Turkish Grand National Assembly on January 20, 2022, the application of inflation accounting was postponed starting from the balance sheet dated on December 31, 2023.

The law on amending the Tax Procedure Law and the Corporate Tax Law was enacted on January 20, 2022, It has been enacted with the number 7352 and it has been decided that the financial statement will not subject to inflation adjustment in the 2021 and 2022 accounting periods, including the temporary accounting periods, and in the provisional tax periods of the 2023 accounting period, regardless of whether the conditions for the inflation adjustment within the scope the repeated Article 298 are met. POA made a declaration on the Implantation of Financial Reporting in High Inflation Economies under TFRS on January 20, 2022, and it was stated that there was no need to make any adjustments within the scope of TAS 29 Financial Reporting in Hyperinflationary Economies in the consolidated financial statement for 2021.

For the years ended 31 December 2021 and 2020, the analysis of the tax expense in the profit or loss is as follows

	2021	2020
Current tax expense	(113,178)	(31,884)
Deferred tax income/(expense)	(117,722)	(14,722)
	(230,900)	(46,606)

	2021	2020
Current corporate tax	113,178	31,884
Less: prepaid corporate tax	(62,584)	(35,421)
Prepaid income tax	50,594	(3,537)

The analysis of tax expense accounted for under the statement of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Profit before tax (25%)	3,512,216	1,830,776
Income tax charge at effective tax rate	(878,054)	(366,155)
Disallowable expenses	(25,427)	(6,851)
Deduction of research and development incentive expenditures during the period	122,146	79,087
Effect of investment incentive, net	809,557	246,353
Used and earned investment incentive	(304,819)	35,081
Other	45,697	(34,121)
	(230,900)	(46,606)

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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 2021 and 2020, using the effective tax rates were as follows

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2021	2020	2021	2020
Unused investment incentive allowances ^(*)	1,887,183	2,514,720	866,423	1,171,242
Warranty provisions	371,172	258,478	77,163	51,692
Provision for employment termination benefits and unused vacation	365,494	265,964	74,580	53,193
Property, plant and equipment and intangibles	289,599	(1,090,162)	61,530	(218,032)
Inventories	83,610	65,999	19,230	13,200
Contract liabilities	44,205	36,297	11,051	7,259
Deferred income	6,379	11,167	(488)	2,234
Land valuations	(116,560)	(116,275)	(11,656)	(11,627)
Other	207,300	152,071	47,970	30,566
Deferred tax asset, net	3,138,382	2,098,259	1,145,803	1,099,727

^(*) 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:

	2021	2020
Deferred tax asset at 1 January	1,099,727	989,454
Deferred tax income	(117,722)	(14,722)
Other comprehensive income	163,798	124,995
- Actuarial gain/(loss) on employment termination benefit obligation attributable to equity	17,326	3,525
- Net gain on cash flow hedging attributable to equity	146,472	121,470
Deferred tax assets at 31 December	1,145,803	1,099,727

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 2021 and 2020, the weighted average number of shares outstanding is 50,000,000,000 and as of 31 December 2021 and 2020 earnings per share is Kuruş 6.56 and Kuruş 3.57 respectively.

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NOTE 27 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related party balances:

Deposit and financial loan balances from related parties	2021	2020
Yapı ve Kredi Bank A.Ş. (deposit) ⁽¹⁾	1,939,244	2,212,173
Yapı ve Kredi Bank A.Ş. (financial loan) ⁽¹⁾	(627,966)	(764,717)
Trade receivables due from related parties	2021	2021
FCA Italy SPA ⁽²⁾	4,815,594	3,112,434
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	865,653	949,093
Other ⁽¹⁾	5,333	3,547
Less: Unearned credit finance expense	(25,648)	(15,735)
	5,660,932	4,049,339
Trade payables due to related parties	2021	2020
FCA Italy SPA ⁽²⁾	4,860,844	3,834,682
Other ⁽¹⁾	225,468	177,683
Less: Unearned credit finance expense	(2,841)	(386)
	5,083,471	4,011,979
Related party transactions		
Sales	2021	2020
FCA Italy SPA ⁽²⁾	14,844,650	10,846,546
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	5,034,470	4,626,281
Other ⁽¹⁾	125,111	56,327
	20,004,231	15,529,154

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

⁽²⁾ Represents the joint ventures.

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NOTE 27 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Domestic goods and services purchases	2021	2020
Ram Dış Ticaret A.Ş. ⁽¹⁾	585,866	390,799
Otokoç Otomotiv Tic. ve San. A.Ş. ⁽¹⁾	427,485	307,639
Zer Merkezi Hiz. ve Tic. A.Ş. ⁽¹⁾	193,609	151,140
Plastiform Plastik San. Tic. A.Ş. ⁽¹⁾	80,476	66,892
Sistemi Comandi Meccanici Otomotiv San. Tic. A.Ş. ⁽¹⁾	62,901	53,813
Koç Holding A.Ş. ^{(2)(*)}	42,929	30,088
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ⁽¹⁾	26,289	21,142
Opet Fuchs Madeni Yağ ve San. Tic. A.Ş. ⁽¹⁾	25,526	17,471
Opet Petrolculuk A.Ş. ⁽¹⁾	20,474	14,135
Ford Otomotiv ⁽¹⁾	16,350	-
Ingage Dijital Pazarlama Hizmetleri ⁽¹⁾	14,155	11,347
Ram Sigorta Aracılık ve İletişim A.Ş. ^{(1)(*)}	13,778	5,068
Tanı Pazarlama ve İletişim A.Ş. ⁽¹⁾	4,664	3,150
Setur Servis Turistik A.Ş. ⁽¹⁾	4,630	9,646
Akpa Dayanıklı Tüketim Lpg ve Akaryakıt Ürünleri Paz. A.Ş. ⁽¹⁾	2,658	2,757
Koç Digital Çözümleri A.Ş. ⁽¹⁾	2,147	300
Diğer ⁽¹⁾	3,729	3,269
	1,527,666	1,088,656
Foreign trade good, material and service purchase	2021	2020
FCA Italy SPA ⁽²⁾	11,690,462	11,207,126
Other ⁽¹⁾	1,692	4,192
	11,692,154	11,211,318

⁽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 - II Intra-group Services regulations.

^(*) The amount consist insurance premium and accruals to non-related insurance companies over the contracts signed through insurance agency Ram Sigorta Aracılık ve İletişim A.Ş.

Interest income from related parties, for the year ended 31 December 2021 is TL 310,364 (31 December 2020: TL 42,138).

Salaries and similar benefits paid to the top management of the Group for the year ended 31 December 2021 (31 person) (31 December 2020: 30 person) is TL 70,300 (2020: TL 51,093). 5,700 TL of the total amount consists of the payments made due to leaved the senior management team. (31 December 2020: 1.467 TL)

Furthermore, as of 31 December 2021, 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 91,431 (31 December 2020: TL 91,114).

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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).

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

Types of credit exposure of financial instruments;

2021	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⁾	5,660,932	1,481,414	1,022	4,214,715	240	4,382,529	
- Maximum risk secured by guarantee ⁽²⁾	33,700	1,422,904	-	-	-	5,558,899	
A. Net book value of financial assets neither overdue nor impaired	5,652,707	1,463,430	1,022	4,214,715	240	4,350,817	
- Maximum risk secured by guarantee	33,700	1,422,904	-	-	-	5,536,563	
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	8,224	11,132	-	-	-	22,336	
- Maximum risk secured by guarantee	-	-	-	-	-	-	
D. Net book value of impaired assets	-	1,996	-	-	-	9,376	
- Overdue (gross book value)	-	14,504	-	-	-	69,859	
- Impairment (-)	-	(12,508)	-	-	-	(60,483)	
- Net value under guarantee	-	-	-	-	-	-	
- Not overdue (gross book value)	-	-	-	-	-	-	
- Impairment (-)	-	-	-	-	-	-	
- Net value under guarantee	-	-	-	-	-	11,101	
E. Off- balance sheet items having credit risk	-	-	-	-	-	-	

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

2020	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⁾	4,049,339	1,443,673	335	4,249,805	1,002	2,859,868
- Maximum risk secured by guarantee (2)	33,700	1,408,230	-	-	-	3,578,795
A. Net book value of financial assets neither overdue nor impaired	4,047,653	1,434,619	335	4,249,805	1,002	2,831,100
- Maximum risk secured by guarantee	33,700	1,402,119	-	-	-	3,560,413
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	1,686	8,835	-	-	-	18,382
- Maximum risk secured by guarantee	-	6,111	-	-	-	18,382
D. Net book value of impaired assets	-	219	-	-	-	10,386
- Overdue (gross book value)	-	12,697	-	-	-	74,408
- Impairment (-)	-	(12,478)	-	-	-	(64,022)
- Net value under guarantee	-	-	-	-	-	-
- Not overdue (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value under guarantee	-	-	-	-	-	19,663
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.

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:

2021	
1 - 30 days past due	18,929
1 - 3 months past due	5,456
3 - 12 months past due	13,866
1 - 5 years past due	3,441
	41,692
2020	
1 - 30 days past due	11,973
1 - 3 months past due	6,395
3 - 12 months past due	4,902
1 - 5 years past due	5,633
	28,903

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

Amount secured with guarantee

As of 31 December 2021, TL 4,839 of total past due receivables of the Group is due from the Group's related party, FCA Italy SPA (31 December 2020: TL 1,524). As of 31 December 2021, the Group's payables to Stellantis Group amounting to TL 4,860,844 (31 December 2020: TL 3,834,682).

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, Doblo, Mini Cargo are guaranteed by FCA Italy SPA through future purchases. As of 31 December 2021, loans obtained related with Doblo vehicle project have entirely been repaid.

2021	TL equivalent (functional currency)	USD	EUR	Other
1. Trade receivables	4,821,667	-	328,400	-
2a. Monetary financial assets (including cash, bank accounts)	554,988	36	37,768	-
2b. Non-monetary financial assets	749,929	-	51,077	-
3. Other	5,048	-	344	-
4. Current assets (1+2+3)	6,131,632	36	417,589	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	22,036	-	1,501	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	22,036	-	1,501	-
9. Total assets (4+8)	6,153,668	36	419,090	-
10. Trade payables	(5,147,856)	(4,901)	(346,256)	(24)
11. Financial liabilities	(2,095,956)	-	(142,754)	-
12a. Monetary other liabilities	-	-	-	-
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(7,243,812)	(4,901)	(489,010)	(24)
14. Trade payables	-	-	-	-
15. Financial liabilities	(1,645,067)	-	(112,044)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(1,645,067)	-	(112,044)	-
18. Total liabilities (13+17)	(8,888,879)	(4,901)	(601,054)	(24)
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)	(2,735,211)	(4,865)	(181,964)	(24)
21. Net foreign currency asset/(liability) position of monetary items (1+2a+3+5+6a-10-11-12a-14-15-16a)	(3,507,176)	(4,865)	(234,542)	(24)
22. Total fair value of financial instruments used for foreign currency hedging	-	-	-	-
23. Export	14,897,618	-	1,380,167	1,835
24. Import	12,620,855	9,260	1,210,476	2,199

⁽¹⁾ The Groups exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in EUR are undertaken by Stellantis Group. Accordingly, net long foreign currency exposure of the Group excluding such borrowings as of 31 December 2021 is TL 235,338.

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

2020	TL equivalent (functional currency)	USD	EUR	Other
1. Trade receivables	3,113,735	5	345,663	-
2a. Monetary financial assets (including cash, bank accounts)	829,905	50	92,090	-
2b. Non-monetary financial assets	362,199	-	40,209	-
3. Other	1,362	-	151	-
4. Current assets (1+2+3)	4,307,201	55	478,113	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	69,352	-	7,699	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	69,352	-	7,699	-
9. Total assets (4+8)	4,376,553	55	485,812	-
10. Trade payables	(3,945,654)	(905)	(437,284)	-
11. Financial liabilities	(1,662,698)	-	(184,582)	-
12a. Monetary other liabilities	-	-	-	-
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(5,608,352)	(905)	(621,866)	-
14. Trade payables	-	-	-	-
15. Financial liabilities	(2,218,455)	-	(246,279)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(2,218,455)	-	(246,279)	-
18. Total liabilities (13+17)	(7,826,807)	(905)	(868,145)	-
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)	(3,450,254)	(850)	(382,333)	-
21. Net foreign currency asset/(liability) position of monetary items (1+2a+3+5+6a-10-11-12a-14-15-16a)	(3,881,805)	(850)	(430,241)	-
22. Total fair value of financial instruments used for foreign currency hedging	-	-	-	-
23. Export	10,905,181	-	1,339,757	1,149
24. Import	11,442,222	4,006	1,379,670	6,626

⁽¹⁾ The Groups exposure to foreign exchange rate fluctuations on the long-term bank borrowings denominated in EUR are undertaken by FCA Italy SPA. Accordingly, net short foreign currency exposure of the Group excluding such borrowings as of 31 December 2020 is TL 6,067.

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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 2021 and 2020:

Exchange rate sensitivity analysis table

	2021			
	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	(6,314)	6,314	-	-
2- Amount hedged for USD risk (-)	-	-	-	-
3- USD net effect (1+2)	(6,314)	6,314	-	-
<i>In case 10% appreciation of EUR against TL:</i>				
4- EUR net asset/liability	(344,362)	344,362	-	-
5- Amount hedged for EUR risk (-)	369,726	(369,726)	-	-
6- EUR net effect (4+5)	25,364	(25,364)	-	-
<i>In case 10% appreciation of other exchange rates against TL</i>				
7- Other exchange rates net asset/liability	(42)	42	-	-
8- Amount hedged for other exchange rates risk (-)	-	-	-	-
9 Other exchange rates net effect (7+8)	(42)	42	-	-
Total (3+6+9)	19,008	(19,008)	-	-

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

	2020			
	Profit/loss Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Equity Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>				
1- USD net asset/liability	(624)	624	-	-
2- Amount hedged for USD risk (-)	-	-	-	-
3- USD net effect (1+2)	(624)	624	-	-
<i>In case 10% appreciation of EUR against TL:</i>				
4- EUR net asset/liability	(387,557)	387,557	-	-
5- Amount hedged for EUR risk (-)	388,105	(388,105)	-	-
6- EUR net effect (4+5)	548	(548)	-	-
<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)	(76)	76	-	-

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 2021, and 2020, 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:

	2021	2020
Change in interest rates (%)	0.50	0.50
Effect on net income before for taxes	(299)	(182)

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.

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

2021

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	7,257,716	8,168,922	604,033	3,488,611	4,076,278	-
Lease liabilities	10,433	13,779	1,775	5,326	6,678	-
Trade payables	8,756,832	8,852,410	8,851,960	450	-	-
Bonds	490,909	551,902	6,713	460,402	84,787	-
Employee benefit liabilities	173,105	173,105	173,105	-	-	-
Other payables	22,921	22,921	22,921	-	-	-
	16,711,916	17,783,039	9,660,507	3,954,789	4,167,743	-

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)	2,124	1,090,392	-	-	1,090,392	-
Derivative cash inflows						
Derivative cash outflows	2,124	1,090,392	-	-	1,090,392	-
	2,124	1,090,392	-	-	1,090,392	-

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

2020

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						
Trade payables	7,484,095	7,530,091	7,530,091	-	-	-
Bank loans	6,389,534	6,897,077	308,345	2,878,817	3,709,915	-
Bonds	286,197	305,927	3,831	302,096	-	-
Employee benefit liabilities	141,144	141,144	141,144	-	-	-
Lease liabilities	14,054	14,054	1,693	5,078	7,283	-
Other payables	19,006	19,006	19,006	-	-	-
	14,334,030	14,907,299	8,004,110	3,185,991	3,717,198	-

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)	7,276	1,749,667	-	-	1,749,667	-
Derivative cash inflows	-	-	-	-	-	-
Derivative cash outflows	7,276	1,749,667	-	-	1,749,667	-
	7,276	1,749,667	-	-	1,749,667	-

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 2021.

Consolidated net financial debt/total equity ratio as of 31 December 2021 and 2020 is as follows;

	31 December 2021	31 December 2020
Total borrowing	7,759,058	6,689,785
Cash and cash equivalent	(4,214,726)	(4,249,809)
Net financial debt	3,544,332	2,439,976
Equity	5,743,391	4,468,611
Net financial debt/total equity multiplier	62%	55%

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

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

Financial assets monetary assets for which the fair value approximates carrying value, balances denominated in foreign currencies are translated at year-end exchange rates. The fair values of financial assets (except short-term consumer financing loans) carried at cost are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The fair values are calculated by discounting the future cash flows of consumer financing loans with the current interest rate which is yearly 19.40% (31 December 2020: 16.13%).

	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
Consumer financing loans	4,382,529	3,635,541	2,859,868	2,395,855

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 vehicles (Egea, Doblo, New Doblo and Mini Cargo (MCV)).

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).

2021

	Level 1	Level 2	Level 3
Investment property	-	69,285	-
Total assets	-	69,285	-
Derivatives held for trading	-	2,124	-
Total Liabilities	-	2,124	-

2020

	Level 1	Level 2	Level 3
Investment property	-	69,000	-
Total assets	-	69,000	-
Derivatives held for trading	-	7,276	-
Total Liabilities	-	7,276	-

As of 31 December 2021, the Group has not made any transfers between second level and first level, and also between third level and other levels.

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NOTE 30 - FEES FOR SERVICES RECEIVED FROM INDEPENDENT AUDITOR/INDEPENDENT AUDIT FIRMS

The Group's explanation regarding the fees for the services received from the independent audit firms, which is based on the letter of POA dated August 19,2021, the preparation principles of which are based on the Board Decision published in the Official Gazette on March 30,2021, are as follows:

Independent audit fee for the reporting period	1 January- 31 December 2021	1 January- 31 December 2020
Audit and assurance fee	390	332
Fee for other assurance services	20	20
Total	410	352

NOTE 31 - SUBSEQUENT EVENTS

None.