

**OTOKAR OTOMOTİV VE SAVUNMA
SANAYİ ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS AT 31 DECEMBER 2015
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
(ORIGINALLY ISSUED IN TURKISH)**

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. ;

Report on the Financial Statements

1. We have audited the accompanying financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company"), which comprise the statement of balance sheet as at 31 December 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Independent Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and Independent Auditing Standards that part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on independent auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the independent audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of Otokar Otomotiv ve Savunma Sanayi A.Ş. as at 31 December 2015 and their financial performance and cash flows for the period then ended in accordance with Turkish Accounting Standards.

Other Responsibilities Arising From Regulatory Requirements

5. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code (“TCC”) No: 6102; auditor’s report on the early risk identification system and committee has been submitted to the Company’s Board of Directors on 5 February 2016.
6. In accordance with subparagraph 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 2015 is not in compliance with the code and provisions of the Company’s articles of association in relation to financial reporting.
7. In accordance with subparagraph 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.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Beste Gücümen, SMMM
Partner

Istanbul, 5 February 2016

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2015

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2015

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

	Notes	(Audited) 31 December 2015	(Audited) 31 December 2014
ASSETS			
Current assets			
Cash and cash equivalents	4	58.736.065	44.527.697
Trade receivables	8	344.453.922	268.230.380
- Due from related parties	27	106.906.185	50.877.972
- Due from other parties	8	237.547.737	217.352.408
Other receivables	9	2.090	958
Inventories	10	427.975.544	264.162.428
Derivative financial instruments	7	146.636	1.726.888
Prepaid expenses	17	122.691.548	78.996.994
Current income tax assets	25	-	2.106.718
Other current assets	17	65.687.162	12.306.871
Total current assets		1.019.692.967	672.058.934
Non-current assets			
Trade receivables, due from other parties	8	100.295.845	140.255.060
Other receivables, due from other parties	9	65.853	101.585
Due from customers on contract works	11	188.278.141	129.854.389
Financial investments	5	239.280	239.280
Property, plant and equipment	12	103.757.339	112.260.055
Intangibles	13	155.419.078	141.447.509
Deferred tax asset	25	37.313.671	39.335.574
Total non-current assets		585.369.207	563.493.452
Total assets		1.605.062.174	1.235.552.386

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2015

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

	Notes	(Audited) 31 December 2015	(Audited) 31 December 2014
LIABILITIES			
Current liabilities			
Short-term financial liabilities	6	375.402	29.751.877
Short-term portion of long term financial liabilities	6	105.607.359	45.915.500
Trade payables	8	165.819.465	81.523.996
<i>Due to related parties</i>	27	27.169.350	10.320.537
<i>Due to others</i>	8	138.650.115	71.203.459
Employee benefit obligations	17	18.137.584	17.106.197
Other payables, third parties	9	36.228.439	16.383.024
Current year income tax liabilities		2.093.694	-
Deferred income	17	176.292.725	263.802.421
Government grants	14	2.056.306	2.033.845
Short term provisions	15	276.300.155	181.758.643
<i>Provisions for employee benefits</i>		6.651.542	5.381.838
<i>Other provisions</i>		269.648.613	176.376.805
Other current liabilities	17	1.978.569	2.025.403
Total current liabilities		784.889.698	640.300.906
Non-current liabilities			
Financial liabilities	6	509.295.075	273.846.971
Government grants	14	5.570.470	7.162.947
Long-term provisions		31.755.416	25.403.540
Provision for employee benefits	16	22.321.490	20.969.191
Other provisions	15	9.433.926	4.434.349
Deferred income	17	28.312.416	44.510.646
Total non-current liabilities		574.933.377	350.924.104
EQUITY			
Paid-in share capital	18	24.000.000	24.000.000
Inflation adjustment on share capital	18	52.743.030	52.743.030
Restricted reserves	18	46.838.147	38.958.147
Accumulated other comprehensive income and expense that will not be classified to statement of profit or loss	18	(3.859.283)	(5.264.855)
Retained earnings	18	46.011.054	61.119.856
Net income for the year	18	79.506.151	72.771.198
Total Equity		245.239.099	244.327.376
Total Liabilities and Equity		1.605.062.174	1.235.552.386

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2015

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

		(Audited) 1 January - 31 December 2015	(Audited) 1 January - 31 December 2014
	Notes		
Net Sales	19	1.433.967.887	1.231.633.772
Cost of sales (-)	19	(1.063.026.461)	(919.528.400)
Gross profit		370.941.426	312.105.372
Marketing expenses (-)	20	(179.773.869)	(132.494.804)
General administrative expenses (-)	20	(49.337.559)	(39.819.107)
Research and development expenses (-)	20	(35.321.089)	(28.658.352)
Other operating income	22	101.264.349	87.200.968
Other operating expenses (-)	22	(68.112.790)	(76.415.130)
Operating profit		139.660.468	121.918.947
Income from investing activities		1.479.803	55.898
Operating income before financial expenses		141.140.271	121.974.845
Financial income	23	12.390.802	14.467.603
Financial expense (-)	24	(65.690.770)	(54.658.600)
Income before tax		87.840.303	81.783.848
Tax income/expense from continued operations			
- Current tax expense (-)	25	(6.663.642)	(4.581.854)
- Deferred tax expense (-)	25	(1.670.510)	(4.430.796)
Profit for the period		79.506.151	72.771.198
Remeasurement gains / (losses) on defined benefit plans		1.756.965	(2.141.752)
Deferred tax effect on remeasurement differences		(351.393)	428.350
Other comprehensive income/(expense)		1.405.572	(1.713.402)
Total comprehensive income/(expense)		80.911.723	71.057.796
Earnings per share (Kuruş)	26	0,331	0,303

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 1 JANUARY – 31 DECEMBER 2015

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

				Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss			
	Paid in share capital	Inflation adjustments on share capital	Restricted reserves	Remeasurement losses on defined benefit plans	Retained earnings	Net income for the period	Total equity
1 January 2014	24.000.000	52.743.030	29.078.147	(3.551.453)	74.438.113	96.561.743	273.269.580
Transfers	-	-	9.880.000	-	86.681.743	(96.561.743)	-
Dividends paid	-	-	-	-	(100.000.000)	-	(100.000.000)
Total comprehensive income	-	-	-	(1.713.402)	-	72.771.198	71.057.796
31 December 2014	24.000.000	52.743.030	38.958.147	(5.264.855)	61.119.856	72.771.198	244.327.376
1 January 2015	24.000.000	52.743.030	38.958.147	(5.264.855)	61.119.856	72.771.198	244.327.376
Transfers	-	-	7.880.000	-	64.891.198	(72.771.198)	-
Dividends paid	-	-	-	-	(80.000.000)	-	(80.000.000)
Total comprehensive income	-	-	-	1.405.572	-	79.506.151	80.911.723
31 December 2015	24.000.000	52.743.030	46.838.147	(3.859.283)	46.011.054	79.506.151	245.239.099

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2015

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

		(Audited) 1 January - Notes 31 December 2015	(Audited) 1 January - 31 December 2014
Cash flows from operating activities			
Income before taxes		87.840.303	81.783.848
Adjustments to reconcile income before taxes to net cash flows from operating activities:			
Depreciation and amortization	12, 13	48.262.812	46.195.954
Provision for employment termination benefits	16	6.625.936	6.224.424
Provision for impairment on inventories	10, 21	(699.394)	190.285
Warranty provision expenses	15, 21	53.642.174	23.001.911
Gain on sale of property, plant and equipments		(1.479.803)	(55.898)
Interest expense on borrowings	24	40.417.977	42.069.785
Unrealised foreign exchange gains on borrowings		(1.578.100)	(2.073.200)
Interest income on time deposits	23	(768.391)	(1.461.384)
Provision for doubtful receivables	8, 22	2.924.718	565.838
Financial derivative transactions, net		(5.808.620)	(11.467.741)
Cash flows before changes in net working capital		229.379.612	184.973.822
Trade and other receivables		(39.154.445)	183.066.006
Due from customers on contract works		(58.423.752)	(36.257.100)
Inventories		(163.113.722)	33.444.452
Other current assets		(94.968.127)	795.755
Trade payables		84.295.469	(20.910.513)
Other liabilities		1.877.224	39.771.888
Collection on gains on financial derivative contracts		7.388.872	8.508.903
Income taxes paid		(4.569.948)	(13.792.197)
Warranties paid	15	(40.426.284)	(25.642.981)
Employee termination benefits paid	16	(3.516.672)	(3.570.127)
Cash flows from investing activities		(81.231.773)	350.387.908
Investing activities			
Purchase of property, plant and equipment	12	(6.350.032)	(8.773.400)
Purchase of intangible assets	13	(48.956.281)	(44.438.216)
Proceeds from sale of property, plant and equipment		3.054.451	499.356
Net cash used in investing activities		(52.251.862)	(52.712.260)
Financing activities			
Proceeds from bank borrowings		661.248.708	262.582.894
Repayments of bank borrowings		(406.518.354)	(389.251.873)
Interest paid		(27.806.742)	(36.824.530)
Interest received		768.391	1.461.384
Dividends paid		(80.000.000)	(100.000.000)
Increase in cash and cash equivalents		147.692.003	(262.032.125)
Increase in cash and cash equivalents		14.208.368	35.643.523
Cash and cash equivalents at the beginning of the year	4	44.527.697	8.884.174
Cash and cash equivalents at the end of the period	4	58.736.065	44.527.697

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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

NOTE 1 - COMPANY'S ORGANIZATION AND NATURE OF OPERATIONS

Otokar Otomotiv ve Savunma Sanayi A.Ş. ("Otokar" or the "Company") was established in 1963 and is registered in Istanbul, Turkey and operating under the Turkish Commercial Code.

The Company operates in automotive industry and off road vehicles, armored vehicles, minibuses, midibuses and buses, trailers, semi-trailers, light truck and cross-country vehicles. The number of the personnel employed by the Company is 2.105 as of 31 December 2015 (31 December 2014: 2.054).

The registered addresses of the Company are as follows:

Headquarters:

Aydınevler Mahallesi, Dumlupınar Cad. No: 58 A Bl.
34854 Küçükyalı / İstanbul

Factory:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

The Company has a subsidiary named "Otokar Europe SAS" with a capital of Euro 100.000, established on 18 August 2011 for the purpose of organizing export activities and increasing export sales. Since the operational magnitude of "Otokar Europe SAS" does not materially affect the financial statements, it has not been included to consolidation and has been presented at historical cost value as financial investments (Note 5).

Financial statements for the year ended 31 December 2015 were authorized for issue and signed by the Board of Directors of the Company on 5 February 2016 with the approval of the Internal Audit Committee. The accompanying financial statements could be amended by the Board of Directors.

The Company is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul ("BIST"), previously name as Istanbul Stock Exchange ("ISE") since 1995. As of 31 December 2015, %27.45 of total shares are listed at BIST.

As of 31 December 2015, the principal shareholders and their respective shareholding percentages are as follows:

	%
Koç Holding A.Ş.	44,68
Ünver Holding A.Ş.	24,81
Other	30,51
	100,00

The Parent Company (Koç Holding A.Ş.), is controlled by Koç Family and the companies owned by Koç Family.

The Company is controlled by Koç Holding A.Ş.

The shareholder, Ünver Holding A.Ş., is controlled by Ünver Family.

The Company conducts part of its business transactions with the Koç Holding A.Ş. and related parties. There are certain related parties which are both customers and vendors of the Company.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

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

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira (TL) in accordance with regulations on accounting and reporting framework and the Uniform Chart of Accounts issued by the Ministry of Finance.

The financial statements have been prepared from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with Turkish Accounting Standards as prescribed by POA. The adjustments are mainly related with deferred taxation, retirement pay liability, prorate and useful life depreciation adjustment of fixed assets, accounting of provisions, construction accounting for tank project and discount of receivables and payables.

The financial statements have been prepared under the historical cost convention, except derivative financial assets and liabilities carried at fair value.

Functional and presentation currency

Functional and presentation currency of the Company is TL.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2014, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 31 December 2015 and 31 December 2014 have been restated by applying the relevant conversion factors through 31 December 2015 and carrying additions after 31 December 2004 at their nominal values.

2.2 Accounting errors and changes in accounting estimates

The Company recognizes, evaluates and presents similar events and transactions consistently. Accounting errors identified are restated retrospectively. The Company has applied the accounting policies consistent with the prior year.

Changes in estimations are applied in the current period if related to one period. They are applied forward, in the period the change occurred and in the future when they are related with the future periods.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

2.3 Changes in accounting policies

The Company changes accounting policies when it is believed that the change will lead to better presentation of transactions and events in the financial statements. When the intentional change can affect the prior period results, the change is applied retrospectively as though it was already applied before. Accounting policy changes arising from the application of a new standard are applied considering the transition principles of the related standard, if any, retrospectively or forward. If no transition principle for the standard exists, the changes are applied retrospectively.

a) Standards, amendments and interpretations applicable as at 31 December 2015

- **Amendment to IAS 19** regarding defined benefit plans, effective from annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- **Annual improvements 2012**; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards:
 - IFRS 2, ‘Share-based payment’
 - IFRS 3, ‘Business Combinations’
 - IFRS 8, ‘Operating segments’
 - IFRS 13, ‘Fair value measurement’
 - IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’
 - Consequential amendments to IFRS 9, ‘Financial instruments’, IAS 37, ‘Provisions, contingent liabilities and contingent assets’, and
 - IAS 39, Financial instruments – Recognition and measurement’
- **Annual improvements 2013**; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2011-12-13 cycle of the annual improvements project, that affect 4 standards:
 - IFRS 1, ‘First time adoption’
 - IFRS 3, ‘Business combinations’
 - IFRS 13, ‘Fair value measurement’ and
 - IAS 40, ‘Investment property’.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

b) Standards, amendments and interpretations effective after 1 January 2016:

- **Amendment to IFRS 11, 'Joint arrangements'** on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- **Amendments to IAS 16 'Property, plant and equipment', and IAS 41, 'Agriculture'**, regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.
- **Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'**, on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- **IFRS 14 'Regulatory deferral accounts'**, effective from annual periods beginning on or after 1 January 2016. IFRS 14, 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.
- **Amendments to IAS 27, 'Separate financial statements'** on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- **Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'**, effective from annual periods beginning on or after 1 January 2016. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information.
- **Amendment to IAS 1, 'Presentation of financial statements'** on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports
- **Amendment to IFRS 10 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'**, effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- **IFRS 15 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- **IFRS 9 'Financial instruments'**, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

2.4 Significant accounting judgments and estimates

The preparation of the financial statements require management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. 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) In the context of IAS 11 "Construction contracts" assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended December 31, 2015, since the Management believed the -indicators demonstrating that the Company will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

2.4 Significant accounting judgments and estimates (Continued)

- c) Provision for employment termination benefits are determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates).
- d) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- e) Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, other than related parties, are assessed with their prior year performances, their credit risk in the current market, and their individual performances after the balance sheet date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.
- f) Inventory price lists after discount is used to calculate impairment for inventories. In such cases that sales price cannot be predicted, inventory aging and physical status are considered together with technical personnel's opinion. If anticipated expected net realizable value is less than the cost, impairment for the difference is provided for.
- g) When allocating provision for legal risks, the probabilities of failure in the cases and the possible liabilities to be arisen in the case of failure are evaluated by the management through being counseled by legal advisors of the Company. The management determines the amount of the provisions based on their best estimates.
- h) The Company has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.

2.5 Summary of significant accounting policies

Revenue recognition

Accruals basis accounting is applied for the recognition of revenue and expenses. The accrual concept requires that revenue, income and profits should be matched with costs, expenses and losses belonging to the same period.

Revenue includes invoiced or accrued values of sale of goods and rendering services. Revenue from the sale of goods is recognised on an accrual basis over fair value when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Significant risk and rewards related to sales passes to the buyer on delivery of the goods or transfer of ownership to buyer. Net sales are invoiced amounts of delivered goods excluding sales returns.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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

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

Revenue recognition (Continued)

Service revenue is recognized in the period services given. Service revenue in the context of repair maintenance agreements for more than one year are recognized in equal installments (straight line method) during the agreement periods and amounts belonging to the following periods are booked as deferred revenue.

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.

Interest income is recognised using the effective interest rate until maturity and considering the effective interest rate.

Construction contract activities

Contract revenue and costs are recognized as revenue and expenses, respectively, when the outcome of a construction contract can be estimated reliably. The projects are "fixed cost" and the project revenues are reflected according to the percentage of completion method. The percentage of completion method is used to recognize revenue on a contract as work progresses by matching contract revenue with contract costs incurred based on the proportion of work completed which is determined by the ratio of actual costs incurred through to the end of each reporting period divided by the total estimated contract costs of the project.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the income statement as incurred. Provisions for estimated losses on uncompleted contracts are made in full, in the period in which such losses are determined.

Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized (Note 11).

Related parties

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity,
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Related parties (Continued)

- (b) In the existence of any instances stated below, the entities shall be considered as related parties to the Company:
- (i) Entity and Company are member of same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost incurred in bringing each product to its present location and conditions are included in the cost of inventory.

Raw materials and merchandises - cost is determined on a weighted average basis over the costs net of imputed interest.

Finished goods and work-in progress -cost of direct materials and labor and a proportion of manufacturing overheads is included based on normal operating capacity using average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale (Note 10).

Property, plant and equipment

All property and equipment is initially recorded at cost and then are carried at restated cost until 31 December 2004 with the index of the related purchase date. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Property, plant and equipment (Continued)

Depreciation is provided on cost or revalued amount of property, plant and equipment on a straight line basis. Estimated useful lives are as follows:

Land improvements	25-30 years
Building	30 years
Machinery and equipment	3-15 years
Vehicles	9 years
Furniture and fixtures	5-15 years
Leasehold improvements	5 years

Land is not amortized since it has an unlimited economic life.

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

Intangible assets

Intangible assets mainly comprise software rights, information systems, project costs related to new product development and computer software. Intangible assets are initially stated at cost and are restated until 31 December 2004 with the index of the related purchase date. Intangible assets are stated at cost less accumulated depreciation and accumulated impairment loss.

Intangible assets are amortized on a straight-line basis over the estimate of their useful lives, which is up to 5 years. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Research and development expenses

Research expenditures are recognized as an expense when they are incurred.

Intangible assets arising from in-house development activities (or the improvement phase of an intergroup project) are recognized when all of the following conditions are met:

- 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Research and development expenses (Continued)

Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not capitalized as an asset in a subsequent period. Capitalized development expenses are amortized in expected useful life which is 5 years by straight-line method effective from the start of the production.

Investment, research and development incentives

Government grants are recognized 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.

Investment and research and development incentives are recognized when the Company's incentive requests (applications) are approved by fiscal authorities.

Income taxes

Income tax is the aggregate amount included in the determination of net profit or loss for the year in respect of current and deferred tax.

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in Turkey. Under the Turkish Tax Code, companies having head office or place of business in Turkey are subject to corporate tax. A provisional tax accrual is recognized in the financial statements for current taxation. Current tax charge is calculated over operational results considering the effects of disallowable and exemptions.

Furthermore, provisional corporate taxes are paid at 20% over profits declared for interim periods in order to be deducted from the final corporate tax.

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

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed by the Company at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets are presented net of deferred tax liabilities in the balance sheet.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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

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

Employee benefits

Defined benefit plans:

Employment termination benefits

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

In the financial statements, the Company has recognized a liability using the “Projected Method” based upon factors derived using the Company’s experience of personnel terminating and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. All actuarial gains and losses are recognized in the statement of other comprehensive income.

Foreign currency transactions

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of such transactions. Monetary balance sheet items denominated in foreign currencies have been translated at the Central Bank of Turkey (TCB) exchange rates prevailing at the balance sheet date.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are revised at each balance sheet date and amended in order to reflect management’s recent estimations.

Contingent liabilities and assets

Assets and liabilities that originate from past incidents and whose presence is not fully under the entity’s control as it can only be confirmed through the realization of one or more indefinite incidents to take place in the future are not included in the financial statements and are considered as contingent liabilities and assets.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Contingent liabilities and assets (Continued)

Contingent liabilities are not recognized in the financial statements. They are disclosed only, if the probability of outflow of resources embodying economic benefits is not highly probable. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is mostly probable.

Share capital and dividend

Ordinary shares are classified under share capital. Dividend distribution on ordinary shares is recognized as an appropriation of profit in the period in which they are declared.

Operating leases

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

Warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses for products produced and sold, authorized services' labor and material costs for products under the scope of the warranty terms without any charge to the customers, initial maintenance costs and estimated costs based on statistical information for possible future warranty services and returns of products with respect to the products sold during the year.

Financial instruments

Financial assets

The Company's financial assets comprise cash and cash equivalents, trade receivables, receivables from related parties, financial investments and other receivables. Financial liabilities comprise financial loans, trade payables, due to related parties and other payables.

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold to maturity. Financial assets which are ready for sale when considered the liquidity needs or the possible changes in interest rates, are classified as held for trading. Others except these are classified as ready for sale financial assets.

Available for sale investments

Investments intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management reviews the classification of these financial assets on a regular basis.

The fair value of financial assets must be carried at cost less impairment, when the fair value of financial assets cannot be measured reliably.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Available for sale investments (Continued)

Available for sale assets are carried at fair value after initial recognition. The fair value of available for sale financial assets is determined by the market price at the balance sheet date when available. If no market price is available, fair value is estimated based on valuation process by using discounted cash flow, similar purchases and observable market parameters.

Cash and cash equivalents

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

Bank accounts consist of time and demand deposit accounts and the related interest accrued. The Turkish Lira balances are stated at face values and the foreign currency balances are translated into Turkish Lira at the foreign currency rate issued by the Central Bank as at the report date. Time deposit accounts are stated as calculated by adding accrued interest as of balance sheet date on the principle amount.

Trade receivables

Trade receivables and notes and post-dated checks classified within trade receivables which are recognized at original invoice amount are measured at amortized cost using the effective interest rate method. Short term trade receivables without specified interest rate, are measured at invoice amount when the interest accrual effect is immaterial.

A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The allowance is an estimated amount which is difference between existing receivable and collectible amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate.

Post dated cheques received with maturity dates exceeding the balance sheet date are classified in trade receivables and are rediscounted using the interest rates determined for government debt securities by considering the interest levels arising in the stock exchanges or other organized markets.

A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all such receivables. The allowance for doubtful receivables is established through a provision charged to expenses. Provision is made when there is objective evidence that the Company will not be able to collect the debts. The allowance is an estimated amount that management believes to be adequate to absorb possible future losses on existing receivables that may become uncollectible due to current economic conditions and inherent risks in the receivables. Bad debts are written off when identified. Provision for doubtful receivables is recognized as an expense when identified.

If a portion or the entire amount of a receivable is collected after provided for a provision, the collected amount is deducted from total provision and is recognized as an income in the comprehensive income statement.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Trade payables

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

Borrowings

Short and long term bank loans are stated at the value computed through addition of the principal amount and the interest expenses accrued as of the balance sheet date.

Borrowings are recognized initially at proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between the proceeds and redemption value is recognized in the comprehensive income statement over the period of the borrowings. Borrowing costs arising from bank loans are charged to the comprehensive income statement when they are incurred unless they are incurred for acquisition of a qualifying asset.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the Company mainly consist of foreign exchange forward contracts and related transactions. These derivative transactions, even though providing effective economic hedges under the Company risk management position, do not generally qualify for hedge accounting, therefore treated as 'derivative financial instruments held for trading. Any gains or losses arising from changes in the fair value of such kind of financial instruments are recognized under statement of profit and loss.

Impairments in financial assets

Financial asset are assessed at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. For loans and receivables impairment loss has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows

Except for trade receivables, which is reduced through the use of an allowance account, impairment on all other financial assets are directly written off in the related account. In case trade receivables cannot be collected, the related amount is written off from allowance account. The change in allowance account is accounted in the comprehensive income statement.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as income in the financial statements.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Recognition and derecognition of financial assets and liabilities

The Company recognizes a financial asset or financial liability in its balance sheet when only when it becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset or a portion of it only when the control on rights under the contract is discharged. The Company derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

All regular way financial asset purchase and sales are recognized at the date of the transaction, the date the Company committed to purchase or sell. The mentioned purchases or sales are ones which require the delivery of the financial assets within the time interval identified with the established practices and regulations in the market.

Foreign currency transactions

Monetary balance sheet items denominated in foreign currencies have been translated to Turkish Lira at the Central Bank of Turkey exchange rates prevailing at the balance sheet date. Exchange gains or losses arising on translation of foreign currency denominated assets and liabilities are included in the comprehensive income statement.

Earnings per share

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year.

The 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 share capital inflation adjustments. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Accordingly, the weighted average number of shares used in earnings per share calculation is derived by giving retroactive effect to the issue of such shares.

Subsequent events

Subsequent events comprise all events occurred between the date of authorization of the financial statements for issuance and the balance sheet date.

The Company updates its financial statements and respective disclosures that relate to conditions that existed at the end of the reporting period to regarding any new information that they receive after the reporting period which require amendment. Non-adjusting events are solely disclosed if they are of such importance.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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

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

Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that carrying value of assets except financial assets and deferred tax assets is impaired or not. When an indicator of impairment exists, the Company estimates the recoverable values of such assets. When individual recoverable value of assets cannot be measured, recoverable value of cash generating unit of that asset is measured.

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.

When recoverable amount of an asset (or a cash generating unit) is lower than its carrying value, the asset's carrying value is reduced to its recoverable amount. An impairment loss is recognized immediately in the comprehensive income statement.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as income in the financial statements.

Borrowing costs

Borrowing costs comprise interest expense, foreign exchange losses arising from financing activities and other costs related with financing.

Borrowing costs directly attributable to the acquisition of qualifying assets are capitalised as part of the cost of the respective assets. Capitalization is ceased when the -operations to bring the qualifying asset ready for sale or use- are completed. Qualifying assets are those assets whose construction or production takes a substantial period of time to get ready for its intended use or sale.

All other borrowing costs are expensed in the period they occur. The Company did not capitalize any borrowing cost in the current year.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liabilities simultaneously.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - SEGMENT REPORTING

As stated in Note 5, "Otokar Europe SAS" operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value. Since the Company does not have different geographical and operational units, the Company does not make segment reporting and follows financial statements by one segment.

Since the Chief Executive Decision Maker does not monitor cost of sales, operating expenses and financial expenses, the products group is only monitored based on revenue. Thus, segment reporting is not performed.

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash at banks		
- Demand deposits	15.239	415.875
- Time deposits	56.506.362	42.551.560
Cheques and notes receivable	2.119.198	1.519.333
Other	95.266	40.929
Total	58.736.065	44.527.697

As of 31 December 2015, TL27.326.362 of time deposits are denominated in foreign currencies and their annual effective interest rate is 0,24% and has a maturity of 4 days. Annual effective interest rate of the remaining time deposits which amount to TL29.180.000 is 14,05% and has a maturity of 4 days.

(As of 31 December 2014, TL927.560 of time deposits are denominated in foreign currencies and their annual effective interest rate is 0,5% and has a maturity of 2 days. Annual effective interest rate of remaining time deposits which amount to TL41.624.000 is 10,98% and has a maturity of 2 days.)

Cheques and notes receivable consist of cheques and notes which are due as of balance sheet date and are sent to banks for collections.

As of 31 December 2015, the Company has restricted bank deposits amounting to TL795 (31 December 2014: TL862).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Europe SAS" with paid in capital of Euro 100.000 (TL 239.280), established on 18 August 2011, in France for the purpose of organizing export activities and increasing export sales. Since "Otokar Europe SAS" operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 6 - FINANCIAL LIABILITIES

	Maturities	Interest rate (%)	31 December 2015 TL
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Short-term bank borrowings (*)

Denominated in TL (***)	4 January 2016		375.402
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Total			375.402
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Principals and interest accruals on the short-term portion of long-term borrowings (*)

Denominated in TL	8,09-14,65	105.178.069
Denominated in EUR	2,65	429.290

Total		105.607.359
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	Maturities	Interest rate (%)	31 December 2015 TL
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Long-term bank borrowings (*)(**)

Denominated in TL	14 April 2017- 3 September 2018	11,55-14,65	351.115.051
Denominated in EUR	10 February 2017- 21 September 2017	2,65-2,90	158.180.024

Total		509.295.075
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(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 730.

(***) Interest free loan for the Social Security Institution payments.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

	Maturities	Interest rate (%)	31 December 2014 TL
Long-term bank borrowings (*)			
Denominated in TL (***)	2 January 2015- 5 January 2015	-	524.367
Denominated in EUR	2 January 2015	3,11-3,17	29.227.510
Total			29.751.877

Principals and interest accruals on the short-term portion of long-term borrowings (*)

Denominated in TL	8,05-11,73	2.375.726
Denominated in EUR	2,04	43.539.774
Total		45.915.500

	Maturities	Intrest rate (%)	31 December 2014 TL
Long term bank borrowings (*)(**)			
Denominated in TL	11 March 2016- 29 September 2017	8,82-11,73	230.794.141
Denominated in EUR	29 June 2016	3,66	43.052.830
			273.846.971

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 661.

(***) Interest free loan for the Social Security Institution payments.

As of 31 December 2015, the Company has not provided any guarantees for the borrowings (31 December 2014: None).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments consist of the forward contracts which are entered in order to hedge foreign currency risk arising from Company's foreign currency sales.

31 December 2015	Contract amount	Current period Contract maturity	Fair value Assets
Forward transactions	55.435.650	7 January 2016- 14 January 2016	146.636
Short-term derivative financial instruments	55.435.650		146.636
Total derivative financial instruments	55.435.650		146.636
31 December 2014	Contract amount	Prior period Contract maturity	Fair value Assets
Forward transactions	137.947.680	8 January 2015- 5 February 2015	1.726.888
Short-term derivative financial instruments	137.947.680		1.726.888
Total derivative financial instruments	137.947.680		1.726.888

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2015	31 December 2014
Trade receivables, net	113.905.306	132.684.387
Notes receivables, net	148.699.225	107.194.793
	262.604.531	239.879.180
Less: provision for doubtful receivables	(25.056.794)	(22.526.772)
Short term trade receivables	237.547.737	217.352.408
Trade receivables from related parties (Note 27)	106.906.185	50.877.972
Short-term trade receivables	344.453.922	268.230.380
Long-term trade receivables, net	87.065.478	125.884.462
Long-term notes receivable, net	13.230.367	14.370.598
Long-term trade receivables	100.295.845	140.255.060

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2015, expect for the notes receivable, average collection term for trade receivables is 60 - 90 days (31 December 2014: 60 - 90 days).

Guarantees received for trade receivables

Receivables of the Company are mainly composed of minibus and bus sales to dealers and trailer sales made in notes. As of 31 December 2015, the total trade receivable from dealers amounting to TL109.952.277 (31 December 2014: TL60.016.673 has been secured by mortgages and guarantees at the amount of TL108.683.872 (31 December 2014: TL126.993.500). The Company manages its credit risk for the remaining receivables through policies and procedures as explained in the Credit Risk section of Note 28.

The aging of the past due but not impaired receivables is as follows:

31 December 2015	Trade receivables
1-30 day past due	-
1-3 month past due	-
3-12 month past due	-
1-5 year past due	187.248
Over 5 year past due	-
Total	187.248

Amount secured with guarantee (1)	187.248
--	----------------

31 December 2014	Trade receivables
1-30 day past due	-
1-3 month past due	-
3-12 month past due	152
1-5 year past due	174.176
Over 5 year past due	-
Total	174.328

Amount secured with guarantee (1)	173.035
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(1) Pledges trailer vehicles.

Legal follow up has been started for the trade receivable balances which are overdue for 1-5 years.

The movement of the provision for doubtful receivables for the year ended December 31, 2015 and December 31, 2014 are as follows:

	2015	2014
1 January	22.526.772	21.961.122
Collections	(394.696)	(188)
Additional provision	2.924.718	565.838
31 December	25.056.794	22.526.772

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NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	31 December 2015	31 December 2014
Trade payables, net	138.397.815	70.978.759
Notes payables, net	252.300	224.700
Short-term trade payables to third parties	138.650.115	71.203.459
Trade payables to related parties	27.169.350	10.320.537
Short-term trade payables	165.819.465	81.523.996

As of 31 December 2015, average payment term for trade payables is 45-60 days (31 December 2014: 45-60 days).

NOTE 9 - OTHER TRADE RECEIVABLES AND PAYABLES

Other short-term receivables

	31 December 2015	31 December 2014
Due from personnel	2.090	958
Total	2.090	958

Other long-term receivables

	31 December 2015	31 December 2014
Deposits and guarantees given	65.853	101.585
Total	65.853	101.585

Other short-term payables

	31 December 2015	31 December 2014
Other miscellaneous payables	36.228.439	16.383.024
Total	36.228.439	16.383.024

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

NOTE 10 - INVENTORIES

	31 December 2015	31 December 2014
Raw materials	127.778.773	93.535.860
Semi-finished goods	14.932.656	16.423.428
Finished goods	148.982.557	33.518.461
Merchandises	58.112.743	50.425.115
Goods in transit	78.964.178	71.754.321
Impairment for inventories (*)	(795.363)	(1.494.757)
Total	427.975.544	264.162.428

(*) TL118.113 of impairment is related to finished goods (31 December 2014: TL1.356.002) and TL677.250 is related to merchandises (31 December 2014: TL138.755). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2015 and 2014 are as follows:

	2015	2014
1 January	(1.494.757)	(1.304.472)
Reversal of provision/(additional provision) (Note 21)	699.394	(190.285)
31 December	(795.363)	(1.494.757)

NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts is TL188.278.141 as of 31 December 2015 (31 December 2014: TL129.854.389) after offsetting with short-term advances received.

As of 31 December 2015, the short-term advances received by the Company related with ongoing projects which amounts to TL79.705.827 was included under deferred revenues in the financial statements (31 December 2014: TL 113.014.910). The remainig TL74.756.786 which is included under deferred income is composed of other advances received from customers (31 December 2014: TL130.933.443) and other payables is amounting to TL21.830.112 (31 December 2014: TL19.854.068).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

For the years ended 31 December 2015 and 2014, the movement of property, plant and equipment and the accumulated depreciation are as follows:

	1 January 2015	Additions	Disposals	Transfers	31 December 2015
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land and improvements	11.621.866	-	-	331.068	11.952.934
Buildings	60.170.668	-	-	369.115	60.539.783
Machinery and equipment	108.389.066	2.106.806	(11.787.190)	464.255	99.172.937
Motor vehicles	9.169.102	314.541	(1.055.861)	-	8.427.782
Furniture and fixtures	34.568.907	2.001.683	(8.385.743)	268.558	28.453.405
Leasehold improvements	2.841.765	81.659	(824.362)	-	2.099.062
Construction in progress	2.355.130	1.845.343	-	(3.236.079)	964.394
	266.573.250	6.350.032	(22.053.156)	(1.803.083)	249.067.043
Accumulated depreciation:					
Land and improvements	(6.176.947)	(648.706)	-	-	(6.825.653)
Buildings	(31.891.231)	(2.821.508)	-	-	(34.712.739)
Machinery and equipment	(87.805.628)	(5.419.005)	11.780.488	-	(81.444.145)
Motor vehicles	(4.737.483)	(717.615)	307.591	-	(5.147.507)
Furniture and fixtures	(21.866.594)	(2.359.706)	8.371.614	-	(15.854.686)
Leasehold improvements	(1.835.312)	(314.024)	824.362	-	(1.324.974)
	(154.313.195)	(12.280.564)	21.284.055	-	(145.309.704)
Net book value	112.260.055				103.757.339
	1 January 2014	Additions	Disposals	Transfers	31 December 2014
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land and improvements	11.309.351	22.539	-	289.976	11.621.866
Buildings	60.170.668	-	-	-	60.170.668
Machinery and equipment	111.943.555	2.304.508	(6.344.057)	485.060	108.389.066
Motor vehicles	7.957.194	1.660.100	(448.192)	-	9.169.102
Furniture and fixtures	31.761.624	2.259.922	(121.110)	668.471	34.568.907
Leasehold improvements	2.734.585	27.581	-	79.599	2.841.765
Construction in progress	1.778.321	2.498.750	-	(1.921.941)	2.355.130
	265.112.044	8.773.400	(6.913.359)	(398.835)	266.573.250
Accumulated depreciation:					
Land and improvements	(4.654.789)	(1.522.158)	-	-	(6.176.947)
Buildings	(29.073.222)	(2.818.009)	-	-	(31.891.231)
Machinery and equipment	(86.240.277)	(7.852.167)	6.286.816	-	(87.805.628)
Motor vehicles	(4.071.036)	(752.826)	86.379	-	(4.737.483)
Furniture and fixtures	(18.760.344)	(3.202.956)	96.706	-	(21.866.594)
Leasehold improvements	(1.469.753)	(365.559)	-	-	(1.835.312)
	(144.269.421)	(16.513.675)	6.469.901	-	(154.313.195)
Net book value	120.842.623				112.260.055

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NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

For the years ended 31 December 2015 and 2014, the allocation of depreciation and amortization expenses of property, plant and equipment and intangibles are as follows:

	31 December 2015	31 December 2014
Research and development expenses	34.230.530	27.832.162
Costs related to uncompleted contracts	3.009.620	7.754.889
Cost of goods sold	5.040.622	5.604.003
Development projects in process	1.989.862	1.903.383
Depreciation on outstanding inventories	1.085.521	1.477.713
General administrative expenses	1.692.488	1.118.856
Selling and marketing expenses	1.214.169	504.948
Total	48.262.812	46.195.954

NOTE 13 - INTANGIBLE ASSETS

For the years ended 31 December 2015 and 2014, the movement of intangible assets and the accumulated amortization is as follows:

	1 January 2015	Additions	Disposals	Transfers	31 December 2015
Cost:					
Other intangible assets	13.530.710	898.037	-	1.803.083	16.231.830
Development costs	186.078.994	-	(819.200)	57.360.103	242.619.897
Development projects in progress	40.525.892	48.058.244	-	(57.360.103)	31.224.033
	240.135.596	48.956.281	(819.200)	1.803.083	290.075.760
Accumulated amortization:					
Other intangible assets	(10.221.496)	(1.751.718)	-	-	(11.973.214)
Development costs	(88.466.591)	(34.230.530)	13.653	-	(122.683.468)
	(98.688.087)	(35.982.248)	13.653	-	(134.656.682)
Net book value	141.447.509				155.419.078

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NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 13 - INTANGIBLE ASSETS (Continued)

For the year ended December 31, 2014, the movement of intangibles and accumulated amortization is as follows:

	1 January 2014	Additions	Disposals	Transfers	31 December 2014
Cost:					
Other intangible assets	12.289.381	842.494	-	398.835	13.530.710
Development costs	147.369.338	-	-	38.709.656	186.078.994
Development projects in progress	35.639.826	43.595.722	-	(38.709.656)	40.525.892
	195.298.545	44.438.216	-	398.835	240.135.596
Accumulated amortization:					
Other intangible assets	(8.371.380)	(1.850.116)	-	-	(10.221.496)
Development costs	(60.634.428)	(27.832.163)	-	-	(88.466.591)
	(69.005.808)	(29.682.279)	-	-	(98.688.087)
Net book value	126.292.737				141.447.509

NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2015	31 December 2014
Short-term	2.056.306	2.033.845
Long-term	5.570.470	7.162.947
Total	7.626.776	9.196.792

Government incentives have been originated from deferral of research and development incentive premiums provided to support research and development expenditures of the Company's various projects by the Scientific & Technological Research Council of Turkey (Tübitak). The related balance will be recognized as revenue in line with the amortization of the respective development costs.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2015	31 December 2014
Provision for other costs	233.120.100	153.473.113
Warranty provision	26.397.052	18.180.739
Short-term provisions for employee benefits	6.651.542	5.381.838
Foundation employer's share of social security premium	2.925.000	2.925.000
Provision for license costs	1.316.079	1.264.726
Provision for legal cases	100.000	100.000
Other	5.790.382	433.227
Total	276.300.155	181.758.643

Long-term provisions

	31 December 2015	31 December 2014
Warranty provision	9.433.926	4.434.349
Total	9.433.926	4.434.349

Provision for other costs

Includes costs incurred by the Company related with tank project, which were not charged yet, and costs incurred by the subcontractors that will be invoiced to the Company at the end of the project, which were computed according to the estimated percentage of completion. The movement of provision for other costs is as follows:

	2015	2014
1 January	153.473.113	76.011.181
Additional provision/ (payment), net	58.423.534	67.226.997
Foreign exchange valuation	21.223.453	10.234.935
31 December	233.120.100	153.473.113

Warranty provision

The Company provides one year warranty for minibuss and Land Rover vehicles and 2 years warranty for certain armoured vehicle models and commercial vehicles sold. Therefore, warranty expense provision has been recorded only for the vehicles under guarantee as of the balance sheet date. The movement of the warranty expense provision is as follows:

	2015	2014
1 January	22.615.088	25.256.158
Additional provision (Note 21)	53.642.174	23.001.911
Realized payments	(40.426.284)	(25.642.981)
31 December	35.830.978	22.615.088

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

Provision for license costs

The movements of provision for license costs are as follows:

	31 December 2015	31 December 2014
1 January	1.264.726	735.433
Additional provision	1.513.663	1.934.544
Realized	(1.462.310)	(1.405.251)
31 December	1.316.079	1.264.726

Commitments and contingencies

As of 31 December 2015 and 31 December 2014, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2015	31 December 2014
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1.226.251.723	846.743.403
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	1.226.251.723	846.743.403

The details of guarantees, pledges and mortgages in terms of original currencies are as follows:

	31 December 2015		31 December 2014	
	Original currency	TL equivalent	Original currency	TL Equivalent
USD	293.815.364	854.297.554	236.106.385	547.507.096
EUR	54.315.986	172.594.478	38.486.835	108.559.815
TL	199.359.691	199.359.691	190.676.492	190.676.492
Total		1.226.251.723		846.743.403

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

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

The details of guarantees, pledges and mortgages in terms of company/institution are as follows:

	31 December 2015	31 December 2014
Guarantee letters given		
Under secretariat of Ministry of Defense	751.262.190	462.293.181
Other(*)	474.989.533	384.450.222
Total	1.226.251.723	846.743.403

(*) Guarantee letters given amounting to TL276.912.365 are given to the public entities (31 December 2014: TL232.283.464).

Guarantee letters

a) Guarantees given as of 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Bank letters of guarantee (*)	1.226.251.723	846.743.403
	1.226.251.723	846.743.403

(*) Bank letters of guarantee amounting to TL723.539.489 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2014: TL458.062.131).

b) Guarantees received as of 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Bank letters of guarantee (**)	474.011.532	346.144.591
Guarantee notes	17.653.397	24.410.289
Mortgages received	582.000	842.000
Guarantee bills	-	6.548.000
Total	492.246.929	377.944.880

(**) Bank letters of guarantee amounting to TL236.503.977 are obtained from the sub-contractors for Altay Project (31 December 2014: TL156.811.967).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2010 was concluded in favor of the Company and TL2.923.627 was refunded to the Company. The same case for 2011-2012-2013 is still in progress at appeal phase. The Company has appealed for the same case of 2014 and it is still in progress. Total amount of cases at the appeal phase relating to years 2011, 2012 and 2013 amount to TL31.707.241, the amount of the legal case for 2014 is TL 4.461.395.

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NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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NOTE 16 - EMPLOYEE BENEFITS

	31 December 2015	31 December 2014
Provision for employment termination benefits	22.321.490	20.969.191
Provision for unused vacation	6.651.542	5.381.838
Total	28.973.032	26.351.029

Employment termination benefits

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

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

The amount payable consists of one month's salary limited to a maximum of TL 3.828 for each year of service as of December 31, 2015 (December 31, 2014 - TL 3.438).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

Turkish Accounting Standards promulgated by POA require actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2015	31 December 2014
Net discount rate (%)	4,60	3,50
Turnover rate to estimate the probability of retirement (%)	97,60	97,41

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

The movements of provision for employment termination benefits are as follows:

	2015	2014
1 January	20.969.191	16.173.142
Interest expense	1.897.712	1.463.669
Charge for the period	4.728.224	4.760.755
Remeasurement (gains)/losses	(1.756.965)	2.141.752
Payments	(3.516.672)	(3.570.127)
31 December	22.321.490	20.969.191

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NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2015	2014
1 January	5.381.838	4.443.081
Charge for the period net (Note 21)	1.269.704	938.757
31 December	6.651.542	5.381.838

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

a) Prepaid expenses:

	31 December 2015	31 December 2014
Advances given	119.060.514	75.972.542
Prepaid expenses	3.631.034	3.024.452
Total	122.691.548	78.996.994

b) Other current assets:

	31 December 2015	31 December 2014
Value added tax receivables	62.891.217	11.466.073
Other	2.795.945	840.798
Total	65.687.162	12.306.871

c) Deferred revenues:

Deferred revenues - short term	31 December 2015	31 December 2014
Deferred maintenance revenues (*)	21.830.112	19.378.209
Other deferred revenues	-	475.859
Advances received (Note 11)	154.462.613	243.948.353
Total	176.292.725	263.802.421

Deferred revenues - long term	31 December 2015	31 December 2014
Deferred maintenance revenues (*)	28.312.416	44.510.646
Total	28.312.416	44.510.646

(*) Deferred repair maintenance income for vehicles sold via agreements signed.

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

d) Employee benefits obligation:

	31 December 2015	31 December 2014
Payables to employees	9.776.832	9.237.281
Social security payables	4.060.123	3.753.058
Taxes and funds payable	4.300.629	4.115.858
Total	18.137.584	17.106.197

e) Other current liabilities:

	31 December 2015	31 December 2014
Tax and fund payable	915.723	1.544.485
Deferred special consumption tax	638.813	92.889
Other	424.033	388.029
Total	1.978.569	2.025.403

NOTE 18 - EQUITY

Share Capital

As of December 31, 2015 and 2014, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2015		31 December 2014	
	TL	%	TL	%
Koç Holding A.Ş.	10.722.750	44,68	10.722.750	44,68
Ünver Holding A.Ş.	5.954.944	24,81	5.954.944	24,81
Other	7.322.306	30,51	7.322.306	30,51
Total	24.000.000	100,00	24.000.000	100,00
Inflation adjustment on equity items	52.743.030		52.743.030	
Total	76.743.030		76.743.030	

Retained earnings, as per the statutory financial statements, other than legal reserve, are available for distribution, subject to the legal reserve requirement referred to below.

The legal reserve consists of first and second legal reserves, allocated in accordance with the Turkish Commercial Code. The first legal reserve is allocated out of last period's statutory profits at the rate of 5% per annum until the total reserve reaches 20% of the paid-in share capital (not indexed to the inflation). The second legal reserve is allocated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. The first and the second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

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NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 18 - EQUITİY (Continued)

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

As of 31 December 2015, in the financial statements of the Company prepared in accordance with financial reporting standards published by Capital Markets Board, net income of the year and prior year profits including other reserves to be distributed as dividend is TL79.506.151 (31 December 2014 – TL72.771.198) and TL46.011.054 (December 31, 2014 – TL61.119.856), respectively. Current year net income of the Company in statutory books is TL 47.807.290 (31 December 2014 - TL48.745.799), other reserves to be distributed as dividend (without being subject to additional taxation) is TL131.308.884 (December 31, 2014 – TL170.262.048). In addition, in statutory books there is TL19.702.874 of inflation adjustment and TL16.224.790 of other capital reserves that are subject to taxation if they are distributed.

After deduction of first legal reserves, current year net profit in statutory books is TL 47.807.290 (December 31, 2014 – TL 48.745.799). As of report date, there is no decision of dividend distribution related to 2015.

In accordance with the Communiqué, as of December 31, 2015 and December 31, 2014, the details of equity, based on which the dividend will be distributed is as follows:

	31 December 2015	31 December 2014
Paid-in share capital	24.000.000	24.000.000
Inflation adjustment on equity items	52.743.030	52.743.030
Restricted reserves	46.838.147	38.958.147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(3.859.283)	(5.264.855)
Retained earnings		
- Extraordinary reserves	35.060.971	50.169.773
- Inflation adjustments on legal reserves	10.950.083	10.950.083
Net income for the year	79.506.151	72.771.198
Total	245.239.099	244.327.376

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 18 - EQUITİY (Continued)

As of December 31, 2015 and 2014, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

	Historical value	Inflation adjustments on equity items	31 December 2015 restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	46.838.147	10.950.083	57.788.230
Total	70.838.147	63.693.113	134.531.260

	Historical value	Inflation adjustments on equity items	31 December 2014 restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	38.958.147	10.950.083	49.908.230
Total	62.958.147	63.693.113	126.651.260

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

	31 December 2015	31 December 2014
Legal reserves	46.838.147	38.958.147
Extraordinary reserves	131.308.884	170.262.048
Total	178.147.031	209.220.195

Dividends distributed during the year based on previous year's net income per statutory financial statements	80.000.000	100.000.000
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Dividend paid per share (kuruş)	0,333	0,417
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The Company's share capital is fully paid, and consists of 24.000.000.000 shares with kuruş 0,1 par value each.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 19 - SALES AND COST OF SALES

Net sales

	1 January - 31 December 2015	1 January - 31 December 2014
Domestic sales	1.023.161.185	996.239.221
Export sales	419.631.436	237.408.664
Gross sales	1.442.792.621	1.233.647.885
Less: sales discounts and returns	(8.824.734)	(2.014.113)
Net sales	1.433.967.887	1.231.633.772

Sales of the Company for the years ended 1 January - 31 December 2015 and 2014 in terms of the products are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Commercial vehicle	648.616.536	584.579.551
Armored vehicle	403.763.175	368.352.294
Other (*)	381.588.176	278.701.927
Total	1.433.967.887	1.231.633.772

(*) TL191.121.291 of this amount is related to revenues of uncompleted contracts (2014: TL173.638.752); the remaining balance amounting to TL190.466.885 is consisted of spare parts, maintenance & repairment and other revenues (2014: TL105.063.175).

Cost of sales

	1 January - 31 December 2015	1 January - 31 December 2014
Cost of finished goods sold	(969.683.214)	(866.659.479)
Cost of merchandise goods sold	(93.343.247)	(52.868.921)
Total	(1.063.026.461)	(919.528.400)

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

	1 January - 31 December 2015	1 January - 31 December 2014
Marketing expenses	(179.773.869)	(132.494.804)
General administrative expenses	(49.337.559)	(39.819.107)
Research and development expenses	(35.321.089)	(28.658.352)
Total	(264.432.517)	(200.972.263)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2015	1 January - 31 December 2014
Cost of raw material and consumption goods	937.566.869	738.218.024
Change in finished goods and work-in-process	(113.973.324)	(3.488.671)
Cost of merchandises sold	93.343.247	52.868.921
Depreciation and amortization expense	45.187.429	43.787.623
Personnel expenses	157.888.134	140.876.680
Operational expenses	33.690.164	28.590.764
Administrative expenses	34.197.342	28.263.200
Warranty reserve expense (Note 15)	53.642.174	23.001.911
Exhibition and fair expenses	6.697.611	8.600.627
Transportation,distribution and storage expenses	15.107.913	12.703.060
Advertisement and promotion expenses	2.306.171	2.463.092
Provisions of impairment for inventories (Not10)	(699.394)	190.285
Other expenses	62.504.642	44.425.147
Total	1.327.458.978	1.120.500.663

The breakdown of personnel expenses is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
With respect to the account:		
Cost of sales and inventories on hand	84.056.162	72.274.288
Costs related to uncompleted contracts	23.194.843	22.150.288
Capitalized development expenditures	22.875.600	21.512.662
General administrative expenses	20.512.531	19.287.015
Marketing expenses	29.034.039	25.941.164
Research and development expenses	1.090.559	1.223.925
Total	180.763.734	162.389.342
	1 January - 31 December 2015	1 January - 31 December 2014
By nature:		
Wages and salaries	132.802.499	117.961.866
Social security premiums	23.980.763	21.100.702
Other social benefits	16.084.832	16.163.593
Provision for employment termination benefits	6.625.936	6.224.424
Provision for vacation pay liability	1.269.704	938.757
Total	180.763.734	162.389.342

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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

NOTE 22 - OTHER OPERATING INCOME/EXPENSE

	1 January - 31 December 2015	1 January - 31 December 2014
Other operating income		
Foreign exchange gain from trade receivable/ payables	34.940.155	40.947.942
Forward transaction income	38.526.757	20.631.246
Maturity difference income	14.033.204	17.822.903
Incentive income	2.033.845	1.165.442
Other	11.730.388	6.633.435
Total	101.264.349	87.200.968

	1 January - 31 December 2015	1 January - 31 December 2014
Other operating expense		
Foreign exchange loss from trade receivable/ payables	(32.387.406)	(63.369.553)
Forward transaction expenses	(32.718.137)	(9.163.505)
Provision for doubtful receivables (Note 8)	(2.924.718)	(565.838)
Provision for foundation employer's share of social security Premium	-	(2.925.000)
Other expenses	(82.529)	(391.234)
Total	(68.112.790)	(76.415.130)

NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2015	1 January - 31 December 2014
Interest income from time deposits	768.391	1.461.384
Foreign exchange gains on deposits	4.620.326	3.267.519
Foreign exchange gains on bank borrowings	7.002.085	9.738.700
Total	12.390.802	14.467.603

NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December 2015	1 January - 31 December 2014
Interest expense on bank borrowings	(40.417.977)	(42.069.785)
Foreign exchange losses on deposits	(8.018.503)	(2.981.715)
Foreign exchange losses on bank borrowings	(17.254.290)	(9.607.100)
Total	(65.690.770)	(54.658.600)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 25 - TAX ASSETS AND LIABILITIES

The Company is subject to taxation in accordance with the tax regulation and the legislation effective in Turkey. Otokar SAS Europe is subject to taxation in accordance with the tax regulation and the legislation effective in France.

In Turkey, the corporation tax rate is 20% (2014 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of 5 years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

15% withholding applies to dividends distributed by resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

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 April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2015 and 2014.

As a result of its research and development expenditures made in 2015 amounting to TL 40.641.115 (2014 – TL 35.561.875), the Company has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

As of 31 December 2015 and 31 December 2014, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2015	31 December 2014
Income tax payable	6.844.679	4.642.432
Less-prepaid tax	(4.750.985)	(6.749.150)
Income tax payable	2.093.694	(2.106.718)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of total tax expense for the years ended 31 December 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
Current tax charge	(6.663.642)	(4.581.854)
Deferred tax income		
Tax charged to profit for the period	(1.670.510)	(4.430.796)
Tax charged to other comprehensive income/expense	(351.393)	428.350
Total tax expense	(8.685.545)	(8.584.300)

The reconciliation of profit before tax to total tax expense is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Profit before tax	87.840.303	81.783.848
Income tax charge at effective tax rate 20%	(17.568.061)	(16.356.770)
Effect of exemptions and incentives	8.128.223	7.480.147
Other differences	754.293	(136.027)
Total tax expense	(8.685.545)	(9.012.650)

As of 31 December 2015 and 31 December 2014, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative Temporary differences		Deferred tax assets / (liability)	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Property, plant and equipment	(10.992.437)	(10.686.872)	1.282.807	1.343.920
Intangible assets	(26.282.311)	(24.037.595)	(5.256.462)	(4.807.519)
Deferred financial expense	(900.574)	(483.877)	(180.115)	(96.775)
Inventories	805.990	1.549.110	161.198	309.822
Warranty provision	35.830.978	22.615.088	7.166.196	4.523.018
Provision for employment termination benefits	22.321.490	20.969.191	4.464.298	4.193.838
Deferred financial income	7.933.694	14.148.535	1.586.739	2.829.707
Other provisions	14.808.853	9.358.416	2.961.770	1.871.684
Deferred maintenance income	50.142.528	63.888.855	10.028.506	12.777.771
Due from customers on contract Works	69.655.901	73.915.663	13.931.180	14.783.133
Other	5.837.770	8.034.875	1.167.554	1.606.975
Deferred tax asset,net			37.313.671	39.335.574

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

The movement of deferred tax asset for the years ended 31 December 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
1 January	39.335.574	43.338.020
Deferred tax income charged to other comprehensive income		
Tax charged to profit for the period	(1.670.510)	(4.430.796)
Tax charged to other comprehensive income/expense	(351.393)	428.350
Total	37.313.671	39.335.574

NOTE 26 - EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit by the weighted average number of shares that have been outstanding during the period concerned.

Companies can increase their share capital by making a pro rata distribution of shares to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings. 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 Company, are regarded similarly.

Earnings per main share are determined by dividing net income of the shareholders by the weighted average number of shares that have been outstanding during the related year concerned.

	31 December 2015	31 December 2014
Net income attributable to shareholders (TL)	79.506.151	72.771.198
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (Kuruş)	0,331	0,303

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES

Due from and due to the related parties at the period end and transactions with related parties during the periods are as follows:

i) Due from and due to related party balances as of 31 December 2015 and 31 December 2014:

Due from related parties	31 December 2015	31 December 2014
Ram Dış Ticaret A.Ş. (1) (*)	99.343.743	38.705.221
Otokar Europe SAS (3)	6.742.250	11.434.239
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	413.262	7.029
Ford Otosan A.Ş. (2)	390.673	731.483
Other (1)	16.257	-
Total	106.906.185	50.877.972

(*) The export registered sales to Ram Dış Ticaret A.Ş., comprise export sales made to third party customers.

Due to related parties	31 December 2015	31 December 2014
Ram Dış Ticaret A.Ş. (1)	14.026.345	3.472.371
Koç Holding A.Ş. (2)	5.992.481	1.571.510
Zer Merkezi Hizmetler A.Ş. (1)	3.244.001	2.347.607
Setur Servis Turistik A.Ş. (1)	1.029.066	464.983
Ram Sigorta Aracılık Hz. A.Ş. (1)	657.447	342.279
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş.(1)	492.530	392.345
Divan Turizm İşletmeleri A.Ş. (1)	442.943	356.386
Opet Fuchs Madeni Yağ A.Ş. (1)	398.558	408.031
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	315.837	200.402
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	269.119	223.877
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	202.101	313.039
Opet Petrolcülük A.Ş. (1)	84.837	84.853
Other (1)	14.085	142.854
Total	27.169.350	10.320.537

(1) Related parties of parent company

(2) Shareholder

(3) The Company's subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

- ii) Major sales and purchase transactions with related parties as of 31 December 2015 and 31 December 2014 are as follows:

Product sales and service revenue	1 January - 31 December 2015	1 January - 31 December 2014
Ram Dış Ticaret A.Ş. (1) (*)	336.302.787	168.169.474
Otokar Europe SAS (3)	14.129.382	20.934.006
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	1.565.239	5.329.327
Aygaz A.Ş. (1)	600.845	93.938
Ford Otosan A.Ş. (2)	1.563	180.456
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	589	551
RMK Marine Gemi Yap. San. İşl. A.Ş. (1)	-	485
Total	352.600.405	194.708.237

(*) Certain portion of export sales are realized through Ram Dış Ticaret A.Ş. as export registered sales, accordingly the amount composed of accounts receivables arising on these transactions.

Purchase of property, plant and equipment	1 January - 31 December 2015	1 January - 31 December 2014
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.029.492	1.451.331
Zer Merkezi Hizmetler A.Ş. (1)	240.788	415.419
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	161.901	65.563
Setur Servis Turistik A.Ş. (1)	18.878	-
Arçelik A.Ş. (1)	13.360	29.481
Koçtaş Yapı Marketleri A.Ş. (1)	6.680	14.831
Total	1.471.099	1.976.625

Inventories purchased	1 January - 31 December 2015	1 January - 31 December 2014
Zer Merkezi Hizmetler A.Ş. (1)	19.356.732	15.982.698
Ram Dış Ticaret A.Ş. (1)	6.191.802	3.764.118
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2.451.134	2.557.507
Opet Fuchs Madeni Yağ A.Ş. (1)	2.438.783	2.110.127
Opet Petrolcülük A.Ş. (1)	1.783.556	1.929.808
Koçtaş Yapı Marketleri A.Ş. (1)	51.992	659.433
Arçelik A.Ş. (1)	4.572	6.255
Ford Otosan A.Ş. (2)	4.010	38.091
Other (1)	3.888	342.036
Total	32.286.469	27.390.073

- (1) Related parties of parent company
(2) Shareholder
(3) The Company's subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January - 31 December 2015	1 January - 31 December 2014
Ram Dış Ticaret A.Ş. (1)	22.772.787	9.303.902
Koç Holding A.Ş. (2) (*)	8.077.173	3.778.564
Otokar Europe SAS (3)	5.997.962	3.110.024
Setur Servis Turistik A.Ş. (1)	5.680.190	4.478.977
Eltek Elektrik Enerji İth.İhr.Top.Tic. A.Ş. (1)	5.425.587	4.003.560
Ram Sigorta Aracılık Hiz. A.Ş. (1) (**)	2.821.729	10.882
Otokoç Otomotiv Tic. ve San. A.Ş.(1)	2.193.307	1.943.049
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	1.323.322	1.026.339
Divan Turizm İşletmeleri A.Ş. (1)	465.553	352.158
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	301.963	164.704
Other (1)	392.148	315.886
Total	55.451.721	28.488.045

(*) It includes service cost that are based on finance, law, planning, tax and management provided by Koç Holding A.Ş. to the companies within the group organization, invoice to Company in frame of "11-Intercompany Services in numbered 1 General Communiqué about Concealed Gain Distribution by Transfer Pricing.

(**) It includes paid and accrued premium as of December 31, 2015 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 December 2015	31 December 2014
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	2.931	78.461
- Time deposits	33.072.560	1.353.000
Total	33.075.491	1.431.461

Checks and notes in collection	31 December 2015	31 December 2014
Yapı ve Kredi Bankası A.Ş. (1)	25.716.139	24.644.202
Total	25.716.139	24.644.202

Borrowings	31 December 2015	31 December 2014
Yapı ve Kredi Bankası A.Ş. (1)	40.176.227	122.670.359
Total	40.176.227	122.670.359

- (1) Related parties of parent company
- (2) Shareholder
- (3) The Company's subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2015 and 2014, other income and expense with related parties:

	1 January - 31 December 2015	1 January - 31 December 2014
Exchange gain from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	9.539.639	11.631.730
Yapı Kredi Faktoring A.Ş. (1)	3.026.053	-
Otokar Europe SAS (3)	396.073	800.030
Other (1)	63.976	10.851
Total	13.025.741	12.442.611

	1 January - 31 December 2015	1 January - 31 December 2014
Exchange loss from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	23.994.845	2.561.864
Otokar Europe SAS (3)	202.801	199.283
Other (1)	99.961	30.360
Total	24.297.607	2.791.507

For the years ended 31 December 2015 and 2014, financial income and expense with related parties:

	1 January - 31 December 2015	1 January - 31 December 2014
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	62.271	227.077
Total	62.271	227.077

	1 January - 31 December 2015	1 January - 31 December 2014
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	6.118.370	5.308.650
Total	6.118.370	5.308.650

- (1) Related parties of parent company
(3) The Company's subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2015 and 2014, financial income and expense with related parties:

	1 January - 31 December 2015	1 January - 31 December 2014
Foreign exchange gains		
Yapı ve Kredi Bankası A.Ş. (1)	3.282.564	10.816.751
Total	3.282.564	10.816.751
	1 January - 31 December 2015	1 January - 31 December 2014
Foreign exchange loss		
Yapı ve Kredi Bankası A.Ş. (1)	5.167.790	7.827.910
Total	5.167.790	7.827.910

(1) Related parties of parent company

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the nine month period ended 31 December 2015 amounted to TL 10.840.763 (31 December 2014: TL 9.867.303). Executives are composed of board of directors members, general manager and assistants of general manager.

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Company is exposed to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. These risks are market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk from any individual counterparty (excluding related parties) and by receiving guarantees from customers when considered necessary. Credit risk of the Company mainly arises from trade receivables. The Company manages this risk that may arise from its dealers or from other customers by restricting the credit limits determined for the dealers according the amount of guarantees received, by receiving advance payments or by receiving the pledge of ownership of the vehicles sold. Credit limits are regularly monitored by the Company and the customers' credit quality are regularly evaluated by considering the customer's financial position, past experiences and other factors. All foreign sales are made after receiving confirmed letters of credit. Military vehicle sales are made to domestic or foreign governmental institutions or to companies acting as agents to these institutions; accordingly, the Company does not anticipate any collection risk related to military vehicle sales. 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 8).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2015	Receivables		Bank deposits	Derivative instruments
	Trade receivables	Other		
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	444.749.767	67.943	56.521.601	-
- Maximum risk secured by guarantee (2)	(203.683.654)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	441.619.979	67.943	56.521.601	-
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	187.248	-	-	-
D. Net book value of impaired assets	2.942.540	-	-	-
- Overdue (gross book value)	27.999.334	-	-	-
- Impairment (-) (Note 8)	(25.056.794)	-	-	-
- Net value under guarantee	1.225.992	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

31 December 2014	Receivables		Bank deposits	Derivative instruments
	Trade receivables	Other		
Raporlama tarihi itibariyle maruz kalınan azami kredi riski (A+B+C+D+E) (1)	408.485.440	102.543	42.967.435	-
- Maximum risk secured by guarantee (2)	(148.988.470)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	404.379.148	102.543	42.967.435	-
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	174.328	-	-	-
D. Net book value of impaired assets	3.931.964	-	-	-
- Overdue (gross book value)	26.458.736	-	-	-
- Impairment (-) (Note 8)	(22.526.772)	-	-	-
- Net value under guarantee	3.931.964	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

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

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

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NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

As of December 31, 2015 and December 31, 2014, maturities of gross trade payables and financial liabilities are as follows:

31 December 2015

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	615.277.836	711.794.230	31.898.813	118.599.753	561.295.664	-
Trade payables	165.819.465	166.726.933	166.474.633	252.300	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	36.228.439	36.228.439	36.228.439	-	-	-
Other short-term liabilities	1.978.569	1.978.569	1.978.569	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	146.636	146.636	146.636	-	-	-
Derivative cash inflows	55.582.286	55.582.286	55.582.286	-	-	-
Derivative cash outflows	(55.435.650)	(55.435.650)	(55.435.650)	-	-	-

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2014

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	349.514.348	379.331.017	46.772.914	45.676.425	286.881.678	-
Trade payables	81.523.996	82.013.939	81.789.239	224.700	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non derivative Financial liabilities						
Other payables	16.383.024	16.383.024	16.383.024	-	-	-
Other short-term liabilities	2.025.403	2.025.403	2.025.403	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	1.726.888	1.726.888	1.726.888	-	-	-
Derivative cash inflows	139.674.568	139.674.568	139.674.568	-	-	-
Derivative cash outflows	(137.947.680)	(137.947.680)	(137.947.680)	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

The Company is exposed to the foreign exchange risk through the rate changes at the translation of foreign currency denominated liabilities to local currency. These risks are monitored and limited by analyzing the foreign currency position. Currency risk is monitored and limited by analyzing the foreign currency position. The Company follows a policy of diversifying its foreign currency position in order to manage the foreign currency risk that may arise due to future operations and recognized assets and liabilities.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The accompanying table represents the foreign currency risk of the assets and liabilities of the Company in the original currencies.;

31 December 2015	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	216.351.765	30.436.177	40.200.851	26.347
2a. Monetary financial assets (including cash, bank accounts)	145.541.867	47.570.674	2.273.765	60
2b. Non-monetary financial assets	-	-	-	-
3. Other	1.281	304	125	-
4. Current assets (1+2+3)	361.894.913	78.007.155	42.474.741	26.407
5. Trade receivables	99.220.390	-	31.224.946	-
6a. Monetary financial assets	188.278.141	64.753.797	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	55.100	-	17.340	-
8. Non-current assets (5+6+7)	287.553.631	64.753.797	31.242.286	-
9. Total assets (4+8)	649.448.544	142.760.952	73.717.027	26.407
10. Trade payables	(68.719.333)	(16.392.611)	(4.554.888)	(1.530.580)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(335.308.086)	(114.658.757)	(567.734)	(28.426)
12b. Non-monetary other liabilities	(21.830.112)	-	(6.870.000)	-
13. Current liabilities (10+11+12)	(425.857.531)	(131.051.368)	(11.992.622)	(1.559.006)
14. Trade payables	-	-	-	-
15. Financial liabilities	(158.609.314)	-	(49.914.814)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(28.312.416)	-	(8.910.000)	-
17. Non-current liabilities (14+15+16)	(186.921.730)	-	(58.824.814)	-
18. Total liabilities (13+17)	(612.779.261)	(131.051.368)	(70.817.436)	(1.559.006)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(31.351.414)	(9.176.250)	(3.500.000)	1.500.000
19a. Hedged total assets amount	17.568.986	3.823.750	-	1.500.000
19b. Hedged total liabilities amount	(48.920.400)	(13.000.000)	(3.500.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	5.317.869	2.533.334	(600.409)	(32.599)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	86.755.430	11.709.280	18.662.126	(1.532.599)
22. Total fair value of financial instruments used for foreign currency hedging	(31.351.415)	(9.176.250)	(3.500.000)	1.500.000
23. Export	419.042.792	83.211.052	59.107.422	64.966
24. Import	476.994.960	89.522.971	66.401.085	6.911.697

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2014	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	157.673.175	1.490.821	53.636.019	813.379
2a. Monetary financial assets (including cash, bank accounts)	78.275.263	32.100.834	1.359.816	280
2b. Non-monetary financial assets	-	-	-	-
3. Other	26.552	4.304	5.875	-
4. Current assets (1+2+3)	235.974.990	33.595.959	55.001.710	813.659
5. Trade receivables	140.250.969	-	49.722.044	-
6a. Monetary financial assets	129.854.389	55.998.270	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	93.433	19.200	17.340	-
8. Non-current assets (5+6+7)	270.198.791	56.017.470	49.739.384	-
9. Total assets (4+8)	506.173.781	89.613.429	104.741.094	813.659
10. Trade payables	(19.937.556)	(3.702.607)	(3.638.931)	(302.341)
11. Financial liabilities	(72.767.284)	-	(25.797.598)	-
12a. Monetary other liabilities	(303.024.062)	(129.627.109)	(862.112)	-
12b. Non-monetary other liabilities	(19.854.068)	-	(7.038.702)	-
13. Current liabilities (10+11+12)	(415.582.970)	(133.329.716)	(37.337.343)	(302.341)
14. Trade payables	-	-	-	-
15. Financial liabilities	(43.052.830)	-	(15.263.173)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(44.510.646)	-	(15.780.000)	-
17. Non-current liabilities (14+15+16)	(87.563.476)	-	(31.043.173)	-
18. Total liabilities (13+17)	(503.146.446)	(133.329.716)	(68.380.516)	(302.341)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(5.501.182)	45.234.300	(38.500.000)	(500.000)
19a. Hedged total assets amount	104.893.818	45.234.300	-	-
19b. Hedged total liabilities amount	(110.395.000)	-	(38.500.000)	(500.000)
20. Net foreign currency asset/(liability) position (9+18+19)	(2.473.847)	1.518.013	(2.139.422)	11.318
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	67.272.064	(43.739.791)	59.156.065	511.318
22. Total fair value of financial instruments used for foreign currency hedging	1.726.888	45.234.300	(38.500.000)	(500.000)
23. Export	237.407.431	53.727.121	43.704.487	932.582
24. Import	333.953.059	85.651.432	47.240.105	2.416.799

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Company's income before tax as of 31 December 2015 and 2014:

31 December 2015	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	736.593	(736.593)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	736.593	(736.593)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	(190.786)	190.786
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(190.786)	190.786
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(14.020)	14.020
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(14.020)	14.020
Total (3+6+9)	531.787	(531.787)
31 December 2014	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	352.012	(352.012)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	352.012	(352.012)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	(603.467)	603.467
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(603.467)	603.467
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	4.070	(4.070)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	4.070	(4.070)
Total (3+6+9)	(247.385)	247.385

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b) Interest position table and related sensitivity analysis

Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are not substantially subject to changes in market interest rates.

The Company's interest rate risk arises from short-term borrowings and time deposits. The Company has obtained fixed rate bearing borrowings and time deposits however the borrowings and time deposits that the Company will obtain in future will be affected from future interest rates.

As of December 31, 2015 and 2014, the financial liabilities of the Company are consisted of fixed rate bank borrowings.

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with other companies in the industry, the Company monitors capital on the basis of the gearing factor. This factor is calculated as net financial debt divided by total capital. Net financial debt is calculated as total borrowings (including borrowings as shown in balance sheet) less cash and cash equivalents.

	31 December 2015	31 December 2014
Total financial debt	615.277.836	349.514.348
Less: Cash and cash equivalents (Note 4)	(58.736.065)	(44.527.697)
Net financial debt	556.541.771	304.986.651
Total equity	245.239.099	244.327.376
Financial debt/shareholders' equity factor	%227	%125

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 29 - FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

The following table presents the Company's assets that are measured at fair value at December 31, 2015 and 2014:

31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	146.636	-	146.636
Total	-	146.636	-	146.636

31 December 2014

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1.726.888	-	1.726.888
Total	-	1.726.888	-	1.726.888

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company 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 Company could realize in a current market exchange.

Company considers that carrying amounts reflect fair values of the financial instruments.

Monetary assets - Short term monetary assets are considered to approximate their respective carrying values due to their short-term nature and low level of credit risk.

Monetary liabilities –Trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The fair values of long-term bank borrowings with fixed interest rates are noted that it is close to approximate their respective carrying values, since the interest rate as of balance sheet date is used. The fair values of short-term bank borrowings are considered to approximate their respective carrying values due to their short-term nature.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE YEAR END FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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NOTE 30 - SUBSEQUENT EVENTS

None.

NOT 31 - OTHER MATTERS WHICH ARE SIGNIFICANT TO THE FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE FINANCIAL STATEMENTS.

None.

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