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

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Financial statements as of December 31, 2011 together with report of independent auditors

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Table of contents

(Convenience translation of audit report originally issued in Turkish)

Independent auditor's report

To the Board of Directors of
Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi:

We have audited the accompanying financial statements of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi (the Company), which comprise the balance sheet as at December 31, 2011, and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards published by the Capital Market Board in Turkey. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by the Capital Market Board in Turkey. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 audit also includes 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 audit evidence we have obtained is sufficient and appropriate to establish a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi as of December 31, 2011 and its financial performance and cash flow for the year then ended in accordance with financial reporting standards issued by Capital Market Board in Turkey.

Additional paragraph for convenience translation to English

As described in Note 2 to the accompanying financial statements, accounting principles and standards applied in the accompanying financial statements (CMB financial accounting standards) are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board except for the adoption of an earlier date for discontinuation of application of IAS 29 (Financial Reporting in Hyperinflationary Economies). As per CMB financial accounting standards application of inflation accounting was ceased effective as of January 1, 2005 whereas per IFRS it was ceased effective January 1, 2006.

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

Erdem Tecer, SMMM
Partner

February 13, 2012
İstanbul, Turkey

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of December 31, 2011
Prepared in accordance with the Communiqué No: XI-29 "Communiqué on Financial Reporting Standards in Capital Market"
(Currency –Turkish Lira (TL) unless otherwise indicated)

		Current period	Prior period
		(Audited)	(Audited)
	Notes	**December 31, 2011**	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents	4	**4.470.424**	111.564.742
Trade receivables	8	**215.803.465**	136.241.771
- Trade receivables from related parties	28	**19.862.364**	18.890.279
- Trade receivables from other parties	8	**195.941.101**	117.351.492
Other receivables	9	**577**	594
Inventories	10	**168.551.835**	100.565.170
Estimated earnings in excess of billings on uncompleted contracts	11	**43.967.333**	22.646.544
Derivative financial instruments	7	**9.022.907**	182.808
Other current assets	18	**133.705.191**	60.395.307
Total current assets		**575.521.732**	431.596.936
Non-current assets			
Trade receivables	8	**81.455.465**	41.433.423
Other receivables	9	**5.903**	5.903
Financial investments	5	**239.280**	-
Property, plant and equipment	12	**113.300.891**	99.137.629
Intangibles	13	**71.474.322**	55.520.950
Deferred tax asset	26	**12.648.352**	7.944.450
Total non-current assets		**279.124.213**	204.042.355
Total assets		**854.645.945**	635.639.291

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of the financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of December 31, 2011
Prepared in accordance with the Communiqué No: XI-29 "Communiqué on Financial Reporting Standards in Capital Market"
(Currency –Turkish Lira (TL) unless otherwise indicated)

	Notes	Current period (Audited) December 31, 2011	Prior period (Audited) December 31, 2010
Liabilities			
Current liabilities			
Financial liabilities	6	**96.867.900**	38.007.355
Trade payables	8	**78.495.682**	47.561.560
- Trade payables to related parties	28	**5.086.142**	3.376.743
- Trade payables to other parties	8	**73.409.540**	44.184.817
Other payables	9	**154.929.567**	162.029.312
Government incentives and grants	15	**621.992**	359.975
Current tax liabilities	26	**3.089.785**	4.581.519
Provisions	16	**206.459.342**	103.611.153
Other current liabilities	18	**8.233.975**	7.131.327
Total current liabilities		**548.698.243**	363.282.201
Non-current liabilities			
Financial liabilities	6	**82.471.971**	90.875.102
Government incentives and grants	15	**1.017.366**	892.142
Employee benefits	17	**9.110.483**	7.088.568
Total non-current liabilities		**92.599.820**	98.855.812
Shareholders' equity			
Parent Company's equity			
Paid-in share capital	19	**24.000.000**	24.000.000
Inflation adjustment on equity items	19	**52.743.030**	52.743.030
Restricted reserves	19	**18.118.147**	16.738.147
Retained earnings	19	**63.640.101**	59.241.787
Net income for the year	19	**54.846.604**	20.778.314
Total shareholders' equity		**213.347.882**	173.501.278
Total liabilities		**854.645.945**	635.639.291

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of the financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Income statement for the year ended December 31, 2011
Prepared in accordance with the Communiqué No: XI-29 "Communiqué on Financial Reporting Standards in Capital Market"
(Currency –Turkish Lira (TL) unless otherwise indicated)

	Notes	**Audited January 1 – December 31, 2011**	Audited January 1 – December 31, 2010
Net sales	20	**890.525.189**	517.396.494
Cost of sales (-)	20	**(694.820.626)**	(426.300.182)
Gross profit		**195.704.563**	91.096.312
Selling, marketing and distribution expense (-)	21	**(83.213.660)**	(42.376.871)
General and administrative expense (-)	21	**(25.161.744)**	(19.913.065)
Research and development expenses (-)	21	**(12.355.838)**	(7.186.302)
Other operating income	23	**4.216.993**	5.770.936
Other operating expense	23	**(8.348.464)**	(1.749.748)
Operating profit		**70.841.850**	25.641.262
Financial income	24	**88.311.941**	37.636.662
Financial expense (-)	25	**(97.377.450)**	(43.201.069)
Income before tax		**61.776.341**	20.076.855
Tax income/expense			
- Tax expense for the year	26	**(11.633.639)**	(4.581.519)
- Deferred tax income	26	**4.703.902**	5.282.978
Net income		**54.846.604**	20.778.314
Other comprehensive income		**-**	-
Total comprehensive income		**54.846.604**	20.778.314
Earnings per share	24	**0,229**	0,087

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of the financial statements.

Statement of changes in equity for the year ended December 31, 2011
Prepared in accordance with the Communiqué No: XI-29 "Communiqué on Financial Reporting Standards in Capital Market"
(Currency –Turkish Lira (TL) unless otherwise indicated)

	Paid-in share capital	Inflation adjustment on equity items	Restricted reserves	Retained earnings	Net income for the year	Total shareholders' equity
January 1, 2010	24.000.000	52.743.030	14.818.147	47.701.977	33.859.810	173.122.964
Transfer to retained earnings	-	-	-	33.859.810	(33.859.810)	-
Transfer to restricted reserves	-	-	1.920.000	(1.920.000)	-	-
Dividends paid (Note 19)	-	-	-	(20.400.000)	-	(20.400.000)
Total comprehensive income	-	-	-	-	20.778.314	20.778.314
December 31, 2010	24.000.000	52.743.030	16.738.147	59.241.787	20.778.314	173.501.278
Transfer to retained earnings	**-**	**-**	**-**	**20.778.314**	**(20.778.314)**	**-**
Transfer to restricted reserves	**-**	**-**	**1.380.000**	**(1.380.000)**	**-**	**-**
Dividends paid (Note 19)	**-**	**-**	**-**	**(15.000.000)**	**-**	**(15.000.000)**
Total comprehensive income	**-**	**-**	**-**	**-**	**54.846.604**	**54.846.604**
December 31, 2011	**24.000.000**	**52.743.030**	**18.118.147**	**63.640.101**	**54.846.604**	**213.347.882**

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of the financial statements.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Cash flow statement for the year ended December 31, 2011
Prepared in accordance with the Communiqué No: XI-29 "Communiqué on Financial Reporting Standards in Capital Market"

(Currency –Turkish Lira (TL) unless otherwise indicated)

	Notes	January 1 – December 31, 2011	January 1 – December 31, 2010
Cash flows from operating activities			
Income before provision for taxes		**61.776.341**	20.076.855
Adjustments to reconcile income before taxes to net cash flows from operating activities:			
Depreciation and amortization	12	**21.548.249**	15.820.022
Provision for retirement pay liability	22	**3.149.257**	2.482.334
Provision for inventories	10, 22	**1.575.452**	-
Warranty provision expenses	16, 22	**28.823.464**	8.536.235
Gain on sale of property, plant and equipment	23	**(1.020.382)**	(2.858.179)
Interest expense	25	**16.075.841**	12.365.701
Unrealized foreign exchange loss on borrowings		**-**	1.079.750
Interest income	24	**(1.558.703)**	(746.729)
Provision for doubtful receivables	8, 23	**7.944.800**	1.535.319
Gain on forward transactions, net		**(11.717.572)**	(727.728)
Operating profit before changes in operating asset and liabilities		**126.596.747**	57.563.580
Trade receivables and other receivables		**(127.528.519)**	(19.599.540)
Costs and estimated earnings in excess of billings on uncompleted contracts		**(21.320.789)**	(11.527.097)
Inventories		**(69.562.117)**	29.484.873
Other current assets		**(73.309.884)**	(169.949)
Trade payables		**30.934.122**	(8.987.424)
Other liabilities, provisions and other current liabilities		**84.981.281**	112.230.828
Income taxes paid		**(13.125.373)**	-
Warranties paid	16	**(16.566.412)**	(8.209.078)
Employee termination benefits paid	17	**(1.127.342)**	(1.010.184)
Net cash (used in)/provided by operating activities		**(80.028.286)**	149.776.009
Cash flows from investing activities			
Cash paid for acquisition of property, plant and equipment	12	**(24.462.080)**	(6.186.083)
Cash paid for acquisition intangible assets	12	**(28.559.974)**	(22.961.136)
Proceeds from sale of property, plant and equipment		**2.377.553**	3.951.604
Capital payment for financial investments	5	**(239.280)**	-
Interest received		**1.558.703**	746.729
Net cash used in investing activities		**(49.325.078)**	(24.448.886)
Cash flows from financing activities			
Change in spot borrowings, net		**12.891.542**	9.821.707
Proceeds from bank borrowings		**64.385.526**	34.779.500
Repayments of bank borrowings		**(36.735.103)**	(59.514.302)
Realized gain from forward transactions, net		**2.877.473**	544.927
Interest payments		**(6.160.392)**	(10.875.390)
Dividends paid	19	**(15.000.000)**	(20.400.000)
Net cash provided by/(used in) financing activities		**22.259.046**	(45.643.558)
Net (decrease)/increase in cash and cash equivalents		**(107.094.318)**	79.683.565
Cash and cash equivalents at the beginning of the year	4	**111.564.742**	31.881.177
Cash and cash equivalents at the end of the year	4	**4.470.424**	111.564.742

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of the financial statements.

(Currency –Turkish Lira (TL) unless otherwise indicated)

1. 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 the automotive industry and off road vehicles, armoured vehicles, minibuses and midibuses, trailers, semi-trailers and cross-country comprises the majority of its production. The number of the personnel in the Company is 1.519 (December 31, 2010 - 1.312).

The registered addresses of the Company are as follows:

<u>Headquarters:</u>

Aydınevler Mahallesi, Dumlupınar Cad. No:24 A Bl.
81580 Küçükyalı / İstanbul

<u>Factory:</u>

Atatürk Cad. No: 9
54580 Arifiye / Sakarya

The Company has a subsidiary named "Otokar Europe SAS" with a capital of Euro 100.000, established on August 18, 2011 for the purpose of organizing export activities and increasing export sales. Since "Otokar Europe SAS" has not yet started its operations and does not materially affect the financial statements, it has not been subject to consolidation and has been classified under financial investments in the balance sheet (Note 5).

Financial statements have been authorized for issue by the Board of Directors of the Company on February 13, 2012 and signed by Ahmet Serdar Görgüç and Hüseyin Odabaş on behalf of Board of Directors of the Company. Although there is no such intention, the Company Management and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The Company conducts part of its business transactions with the Koç Holding A.Ş. and related parties. The Company is registered to the Capital Market Board ("CMB") and its shares are listed on the Istanbul Stock Exchange ("ISE") since 1996. As of December 31, 2011, the shares listed on the ISE are 29,91% of the total shares. As of December 31, 2011, 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 shareholder, Ünver Holding A.Ş., is controlled by Ünver Family.

2. Basis of presentation

2.1 Basis of presentation

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 accounting and reporting standards as prescribed by Turkish Capital Market Board. 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 are prepared in accordance with International Accounting / Financial Reporting Standards (IAS/IFRS) as prescribed in the CMB communiqué No:XI-29 "Communiqué on Financial Reporting Standards in Capital Markets" (Communiqué) which is published in the official gazette and become effective as of April 9, 2008.

The financial statements have been prepared under the historical cost convention, except financial assets 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 March 17, 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 December 31, 2004, 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 December 31, 2011 and December 31, 2010 have been restated by applying the relevant conversion factors through December 31, 2004 and carrying additions after December 31, 2004 at their nominal values.

2.2 Comparative information and restatement of prior period financial statements

In order to provide chance to identify trend of financial performance and financial position, financial statements are prepared comparative to the prior period. When presentation of current year financial statements is revised for more accurate presentation, prior year financial statements are reclassified accordingly, to be comparative.

In order to be comparative with the current year presentation, the Company has reclassified forward income accruals amounting to TL 182.808, which was classified in 'other current assets' as of December 31, 2010, to 'derivative financial instruments'.

2. Basis of presentation (continued)

2.3 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 in consistence 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.

2.4 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.

New standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2011 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2011. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2011 are as follows:

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction— Prepayments of a Minimum Funding Requirement (Amended)

The amendment removes an unintended consequence when an entity is subject to minimum fundingrequirements and makes an early payment of contributions to cover such requirements. The amendmentpermits a prepayment of future service cost by the entity to be recognised as a pension asset. The Company is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position or performance of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39.

2. Basis of preparation financial statements (continued)

As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. This interpretation does not apply when the creditor is acting in the capacity of a shareholder, in common control transactions or when the issue of equity shares was part of the original terms of the liability. The adoption of the interpretation did not have any impact on the financial position or performance of the Company.

IAS 32 Financial Instruments: Presentation - Classifications on Rights Issues (Amended)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has no effect on the financial position or performance of the Company because the Company does not have these types of instruments.

IAS 24 Related Party Disclosures (Revised)

Amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, the revised standard introduces a partial exemption of general disclosure requirements for transactions with government-related entities. The amendment has no effect on the financial position or performance of the Company.

Improvements to IFRSs

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Revisions which are effective as of January 1, 2011 and have no effect on the financial performance and financial position of the Company are as follows. The amendments that are effective as at 1 January 2011 are as follows:

IFRS 3 Business Combinations

i) Transition requirements for contingent consideration from a business combination that occurred before the effective date of revised IFRS

This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

ii) Measurement of non-controlling interests

This improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets.

2. Basis of preparation financial statements (continued)

iii) Unreplaced or voluntarily replaced share-based payment awards

This improvement requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration paid and post combination expenses.

IFRS 7 Financial Instruments: Disclosures

This improvement gives clarifications of disclosures required by IFRS 7 and emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Among others, the improvement remove the disclosure requirement of the collateral held as security and other credit enhancements and estimate of their fair value for financial assets that are past due but not impaired and that are individually impaired; and instead include a disclosure requirement of financial effect of collateral held as security and other credit enhancements for all financial assets.

IAS 1 Presentation of Financial Statements

This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and Separate Financial Statements

This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 "The Effect of Changes in Foreign Exchange Rates", IAS "28 Investments in Associates" and IAS 31 "Interests in Joint Ventures" apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.

IAS 34 Interim Financial Reporting

This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements on i) the circumstances likely to affect fair values of financial instruments and their classification, ii) transfers of financial instruments between different levels of the fair value hierarchy, iii) changes in classification of financial assets, and iv) changes in contingent liabilities and assets.

IFRIC 13 Customer Loyalty Programmes

This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Standards issued but not yet effective and not early adopted

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

2. Basis of preparation financial statements (continued)

IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income

The amendments are effective for annual periods beginning on or after 1 July 2012, but earlier application is permitted. The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The amendment affects presentation only and will have no impact on the financial position or performance of the Company.

IAS 12 Income Taxes: Recovery of Underlying Assets (Amendment)

The amendments are mandatory for annual periods beginning on or after 1 January 2012, but earlier application is permitted. IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. These amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The Company does not expect that this amendment will have significant impact on the financial position or performance of the Company.

IAS 19 Employee Benefits (Amended)

Amended standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the amended standard on the financial position or performance of the Company.

IAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Transitional requirement of this amendment is similar to IFRS 10. This standard has not yet been endorsed by the EU. This amendment will not have any impact on the financial position or performance of the Company.

IAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to IFRS 11 and IFRS 12, the IASB also amended IAS 28, which has been renamed IAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to IFRS 11. This standard has not yet been endorsed by the EU. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

2. Basis of preparation financial statements (continued)

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. This standard has not yet been endorsed by the EU. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amended)

The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitizations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. This amendment has not yet been endorsed by the EU. The amendment is effective for annual periods beginning on or after 1 July 2011.Comparative disclosures are not required. The amendment affects disclosures only and will have no impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities(Amended)

New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. This standard has not yet been endorsed by the EU. The amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Company.

IFRS 9 Financial Instruments – Classification and measurement

As amended in December 2011, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments.

The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

2. Basis of preparation financial statements (continued)

IFRS 10 Consolidated Financial Statements

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

IFRS 11 Joint Arrangements

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard has not yet been endorsed by the EU. The Company does not expect that this standard will have a significant impact on the financial position or performance of the Company.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements should be also adopted early.

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

2. Basis of preparation financial statements (continued)

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and will be adopted prospectively. Early application is permitted. The new disclosures are only required for periods beginning after IFRS 13 is adopted — that is, comparative disclosures for prior periods are not required. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted. Entities will be required to apply its requirements for production phase stripping costs incurred from the start of the earliest comparative period presented. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. This standard has not yet been endorsed by the EU. The interpretation is not applicable for the Company and will not have any impact on the financial position or performance of the Company.

2.5 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 deductable temporary differences. For the year ended December 31, 2011, 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.

c) Reserve for retirement pay is determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates).

2. Basis of presentation (continued)

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.

e) 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.

f) 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.

2.6 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.

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.

2. Basis of presentation (continued)

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.

Related parties

Parties are considered related to the Company if;

(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.

(b) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

- (i) 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).
- (ii) 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.
- (iii) 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.
- (iv) The entity is controlled or jointly controlled by a person identified in (a).
- (v) 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).

2. Basis of presentation (continued)

(vii) if the person or entity defined in article (a) and subparagraph (i) has significant influence or control over company or if the mentioned person or entity is a key executive of the company.

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

Property, plant and equipment

All property and equipment is initially recorded at cost and then are carried at restated cost until December 31, 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.

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

2. Basis of presentation (continued)

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

Gains and losses on sale of property, plant and equipment are included in other operating 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 December 31, 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:

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

Other development expenditures are recognized as an expense 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 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.

2. Basis of presentation (continued)

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.

Long-term employee benefits

(a) Defined benefit plans:

Retirement pay liability

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 Unit Credit 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 income statement.

2. Basis of presentation (continued)

(b) Defined contribution plans:

The Company pays contributions to the Social Security Institution on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

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.

Contingent liabilities and assets are defined to be arising from past events to be caused from inflows or outflows of resources including economic benefits on amortization.

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.

2. Basis of presentation (continued)

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

The Company's financial assets comprise cash and cash equivalents, 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.

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.

2. Basis of presentation (continued)

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.

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.

2. Basis of presentation (continued)

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 comprehensive income statement.

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.

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.

2. Basis of presentation (continued)

Foreign currency transactions

Monetary balance sheet items denominated in foreign currencies have been translated 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.

Cash flow statement

For purposes of preparation of the statements of cash flows, cash and cash equivalents include cash on hand, bank deposits and reverse repurchase agreements with maturity of less than three months.

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.

(Currency –Turkish Lira (TL) unless otherwise indicated)

2. Basis of presentation (continued)

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.

3. Segment reporting

Since the Company follows its operations in one segment, the Company does not prepare segment reporting. Sales by product groups are disclosed in Note 17.

4. Cash and cash equivalents

	December 31, 2011	December 31, 2010
Cash at banks		
- demand deposits	**2.897.205**	9.675.762
- time deposits	**-**	100.799.200
Cheques and notes received	**1.526.619**	1.028.005
Other	**46.600**	61.775
	4.470.424	111.564.742

(Currency –Turkish Lira (TL) unless otherwise indicated)

4. Cash and cash equivalents (continued)

As of December 31, 2010, effective interest rate of time deposits which are originally amounting to USD 65.200.000 is annually 1,55% and the maturity is 3 days.

Checks and notes received consist of checks and notes which are due as of balance sheet date and are given to banks for collections.

As of December 31, 2011, the Company has restricted bank deposit amounting to TL 1.145 (December 31, 2010 - TL 795).

5. Financial investments

The Company has a subsidiary titled as "Otokar Europe SAS" with a capital of Euro 100.000, established on August 18, 2011, for the purpose of organizing export activities and increasing export sales. Since "Otokar Europe SAS" has not yet started its operations and does not materially affect the financial statements, it has not been subject to consolidation and is carried at cost values.

The paid-in capital of Otokar Europe SAS is TL 239.280.

6. Financial liabilities

			December 31, 2011
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (**)			
Denominated in TL	**January 2, 2012 – March 15, 2012**	**8,55 – 12,95**	**96.867.900**
Total			**96.867.900**

			December 31, 2011
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)(**)			
Denominated in TL	**January 7, 2013 – September 16, 2013**	**10,80 – 11,16**	**82.471.971**
Total			**82.471.971**

(*) Weighted average maturity days of long-term borrowings are 499.
(**) Bearing fixed interest rate

6. Financial liabilities (continued)

				December 31, 2010
	Maturities	Interest rate (%)	Amount in original currency	TL
Short-term bank borrowings (**)				
Denominated in EUR	June 9, 2011	3,55	10.378.129	21.265.825
Denominated in TL	January 5, 2011 – October 27, 2011	8,50	16.741.530	16.741.530
Total				38.007.355

				December 31, 2010
	Maturities	Interest rate (%)	Amount in original currency	TL
Long-term bank borrowings (*)(**)				
Denominated in EUR	February 24, 2012 – March 15, 2012	3,76	7.549.304	15.469.278
Denominated in TL	April 28, 2012	8,55 - 8,75	75.405.824	75.405.824
Total				90.875.102

(*) Principle amount of long- term borrowings will be repaid on maturity with all accrued interest. Weighted average maturity days are 426.
(**) Bearing fixed interest rate

The Company management has decided to early pay loans amounting to EUR 7.500.000, which were utilized under the guarantee of Koç Holding A.Ş. as of December 31, 2010 and which were classified under long-term financial liabilities, before its maturity (April 18, 2012) on January 28, 2011.

As of December 31, 2011, the Company has not provided any guarantees for the borrowings received (December 31, 2010 - None).

(Currency –Turkish Lira (TL) unless otherwise indicated)

7. Derivative financial instruments

Derivative financial instruments consist of the forward contracts which are entered into, to hedge foreign currency risk arising from Euro-based receivables due to the Company's trailer sales.

			Fair values
	Contract amount	**Contract maturity**	**Assets**
December 31, 2011:			
Forward transactions	**208.525.910**	**January 11, 2012 – March 30, 2012**	**9.022.907**
Short-term derivative financial instruments	**208.525.910**		**9.022.907**
Total derivative financial instruments	**208.525.910**		**9.022.907**
December 31, 2010**:**			
Forward transactions	92.106.455	February 22, 2011 – June 8, 2011	182.808
Short-term derivative financial instruments	92.106.455		182.808
Total derivative financial instruments	92.106.455		182.808

8. Trade receivables and payables

Trade receivables

	December 31, 2011	December 31, 2010
Trade receivables, net	**67.250.300**	44.185.538
Notes receivables, net	**147.028.337**	83.706.200
	214.278.637	127.891.738
Less: provision for doubtful receivables	**(18.337.536)**	(10.540.246)
Other short-term trade receivables	**195.941.101**	117.351.492
Trade receivables from related parties (Note 25)	**19.862.364**	18.890.279
Short-term trade receivables	**215.803.465**	136.241.771
Long-term notes receivable, net	**81.455.465**	41.433.423
Long-term trade receivables	**81.455.465**	41.433.423

As of December 31, 2011, average collection term for trade receivables (except notes receivables) is 60-90 days (December 31, 2010 – 60-90 days).

(Currency –Turkish Lira (TL) unless otherwise indicated)

8. Trade receivables and payables (continued)

Guarantees received for trade receivables

Receivables of the Company mainly relate to the sales to the minibus and bus dealers, trailer sales and military vehicle sales. As of December 31, 2011, the total trade receivable from dealers amounting to TL 52.916.990 (December 31, 2010 - TL 53.131.516), after provision reserved for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 41.753.015 (December 31, 2010 - TL 46.846.000). The Company manages its credit risk for the remaining receivables through policies and procedures as explained in the Credit Risk section of Note 26.

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

December 31, 2011	**Trade receivables**
1- 30 day past due	**-**
1- 3 month past due	**251.577**
3- 12 month past due	**-**
1- 5 year past due	**1.222.206**
Over 5 year past due	**-**
Total	**1.473.783**
Amount secured with guarantee (1)	**1.462.159**

December 31, 2010	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	53.604
1- 5 year past due	2.603.978
Over 5 year past due	-
Total	2.657.582
Amount secured with guarantee (1)	2.094.954

(1) Pledges on trailers.

The movement of the provision for doubtful receivables for the year ended December 31, 2011 and December 31, 2010 are as follows:

	December,31 2011	December,31 2010
January 1	**10.540.246**	9.032.435
Collections	**(147.510)**	(27.508)
Additional provision (Note 23)	**7.944.800**	1.535.319
Total	**18.337.536**	10.540.246

(Currency –Turkish Lira (TL) unless otherwise indicated)

8. Trade receivables and payables (continued)

Trade payables

	December,31 2011	December,31 2010
Trade payables, net	**73.243.490**	44.033.767
Notes payables, net	**166.050**	151.050
Short-term trade payables	**73.409.540**	44.184.817
Trade payables to related parties (Note 25)	**5.086.142**	3.376.743
Short-term trade payables	**78.495.682**	47.561.560

As of December 31, 2011, average payment term for trade payables is 45-60 days (December 31, 2010 – 45-60 days).

9. Other receivables and payables

Other short-term receivables

	December 31, 2011	December,31 2010
Due from personnel	**577**	594
Total	**577**	594

Other long-term receivables

	December 31, 2011	December,31 2010
Deposits and guarantees given	**5.903**	5.903
Total	**5.903**	5.903

Other short-term payables

	December 31, 2011	December,31 2010
Advances received	**148.349.292**	158.527.706
Due to personnel	**6.545.066**	3.469.360
Other miscellaneous payables	**35.209**	32.246
Total	**154.929.567**	162.029.312

(Currency –Turkish Lira (TL) unless otherwise indicated)

10. Inventories

	December 31, 2011	December,31 2010
Raw material	**47.815.012**	25.138.729
Work-in-process	**9.056.158**	2.139.199
Finished goods	**61.757.207**	29.089.773
Merchandise	**24.079.893**	17.622.154
Goods in transit	**27.419.017**	26.575.315
(-) Impairment for inventories (*)	**(1.575.452)**	-
Total	**168.551.835**	100.565.170

(*) TL 1.148.244 of impairment is related to finished goods and TL 427.208 is related to merchandises. The impairment has been accounted under cost of sales account.

The movements of impairment for inventories in 2011 are as follows:

	December 31, 2011
January 1	-
Period charge (Note 22)	(1.575.452)
December 31, 2011	(1.575.452)

11. Costs and billings on uncompleted contracts and other payables

As of December 31, 2011 accrued costs related to uncompleted contracts amounted to TL 251.447.795 (December 31, 2010 - TL 135.992.445).

As of December 31, 2011, the short term advances taken by the Company related with ongoing projects which amounts to TL 61.420.658 was included in other payables in the financial statements (December 31, 2010 – TL 114.477.042).

(Currency –Turkish Lira (TL) unless otherwise indicated)

12. Property, plant and equipment

For the year ended December 31, 2011, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2011	Additions	Disposals	Transfers	December 31, 2011
Cost:					
Land	36.396.386	574.360	-	-	36.970.746
Land improvements	5.481.336	530.766	(19.185)	323.017	6.315.934
Buildings	53.219.003	65.994	-	3.943.514	57.228.511
Machinery, equipment and installations	92.434.926	2.731.613	(6.800.817)	412.962	88.778.684
Motor vehicles	6.698.795	1.263.150	(1.089.147)	63.428	6.936.226
Furniture and fixtures	18.759.148	3.743.570	(255.966)	876.306	23.123.058
Leasehold improvements	1.448.602	-	-	-	1.448.602
Construction in progress	670.873	15.552.627	-	(5.619.227)	10.604.273
	215.109.069	24.462.080	(8.165.115)	-	231.406.034
Accumulated depreciation:					
Land improvements	2.330.079	207.984	(10.924)	-	2.527.139
Buildings	21.113.641	2.549.269	-	-	23.662.910
Machinery, equipment and installations	73.826.184	4.744.094	(6.394.259)	-	72.176.019
Motor vehicles	3.370.231	420.894	(189.400)	-	3.601.725
Furniture and fixtures	14.123.773	980.877	(213.361)	-	14.891.289
Leasehold improvements	1.207.532	38.529	-	-	1.246.061
	115.971.440	8.941.647	(6.807.944)	-	118.105.143
Net book value	99.137.629				113.300.891

(Currency –Turkish Lira (TL) unless otherwise indicated)

12. Property, plant and equipment (continued)

For the year ended December 31, 2010, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2010	Additions	Disposals	Transfers	December 31, 2010
Cost:					
Land	36.396.386	-	-	-	36.396.386
Land improvements	5.481.336	-	-	-	5.481.336
Buildings	53.131.899	-	-	87.104	53.219.003
Machinery, equipment and installations	86.463.883	2.034.497	(1.844.073)	5.780.619	92.434.926
Motor vehicles	5.113.531	1.901.866	(316.602)	-	6.698.795
Furniture and fixtures	18.408.093	1.593.830	(1.246.715)	3.940	18.759.148
Leasehold improvements	1.445.746	2.856	-	-	1.448.602
Construction in progress	5.889.502	653.034	-	(5.871.663)	670.873
	212.330.376	6.186.083	(3.407.390)	-	215.109.069
Accumulated depreciation:					
Land improvements	2.128.424	201.655	-	-	2.330.079
Buildings	18.593.043	2.520.598	-	-	21.113.641
Machinery, equipment and installations	70.043.866	4.739.617	(957.299)	-	73.826.184
Motor vehicles	3.127.422	363.051	(120.242)	-	3.370.231
Furniture and fixtures	14.677.521	682.677	(1.236.425)	-	14.123.773
Leasehold improvements	1.168.255	39.277	-	-	1.207.532
	109.738.531	8.546.875	(2.313.966)	-	115.971.440
Net book value	102.591.845			-	99.137.629

For the years ended December 31, 2011 and 2010, the allocation of depreciation and amortisation expenses of property, plant and equipment and intangibles has been as follows:

	December 31, 2011	December, 30 2010
Research and development expenses	**11.369.270**	6.185.961
Cost of goods sold	**5.548.448**	5.868.078
Costs related to uncompleted contracts	**1.315.993**	809.418
Development projects in process	**1.135.766**	1.020.656
General administrative expenses	**1.066.397**	1.034.056
Depreciation on outstanding inventories	**579.519**	437.572
Selling and marketing expenses	**532.856**	464.281
	21.548.249	15.820.022

(Currency –Turkish Lira (TL) unless otherwise indicated)

12. Property, plant and equipment (continued)

As of December 31, 2011 and December 31, 2010, gross values of fully depreciated items which are still in use are as follows:

	December 31, 2011	December, 30 2010
Machinery, equipment and installations	**45.831.577**	47.771.602
Motor vehicles	**2.585.412**	2.585.412
Furniture and fixtures	**11.912.057**	11.880.762
Leasehold improvements	**1.094.646**	1.089.332
	61.423.692	63.327.108

13. Intangible assets

For the year ended December 31, 2011, the movement of intangibles and accumulated amortization is as follows:

	January 1, 2011	Additions	Transfers	December 31, 2011
Cost:				
Other intangible assets	**6.768.208**	**1.190.689**	**-**	**7.958.897**
Development costs	**55.012.467**	**-**	**25.588.019**	**80.600.486**
Development projects in process	**7.299.830**	**27.369.285**	**(25.588.019)**	**9.081.096**
	69.080.505	**28.559.974**	**-**	**97.640.479**
Accumulated amortization:				
Other intangible assets	**4.186.143**	**1.237.332**	**-**	**5.423.475**
Development costs	**9.373.412**	**11.369.270**	**-**	**20.742.682**
	13.559.555	**12.606.602**		**26.166.157**
Net book value	**55.520.950**			**71.474.322**

(Currency –Turkish Lira (TL) unless otherwise indicated)

14. Intangible assets (continued)

For the year ended December 31, 2010, the movement of intangibles and accumulated amortization is as follows

	January 1, 2010	Additions	Transfers	December 31, 2010
Cost:				
Other intangible assets	5.936.514	831.694	-	6.768.208
Development costs	26.784.388	-	28.228.079	55.012.467
Development projects in process	13.398.467	22.129.442	(28.228.079)	7.299.830
	46.119.369	22.961.136	-	69.080.505
Accumulated amortization:				
Other intangible assets	3.098.957	1.087.186	-	4.186.143
Development costs	3.187.451	6.185.961	-	9.373.412
	6.286.408	7.273.147	-	13.559.555
Net book value:	39.832.961			55.520.950

As of December 31, 2011 and December 31, 2010, the gross values of fully amortized intangible assets which are still in use are as follows:

	December,31 2011	December,31 2010
Other intangible assets	**2.793.969**	2.325.783
	2.793.969	2.325.783

15. Government grants and incentives

	December,31 2011	December,31 2010
Short term	**621.992**	359.975
Long term	**1.017.366**	892.142
Total	**1.639.358**	1.252.117

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 investments.

(Currency –Turkish Lira (TL) unless otherwise indicated)

16. Provisions, contingent assets and liabilities

Provisions

	December 31, 2011	December 31, 2010
Provision for other costs	**183.334.944**	94.164.831
Warranty provision	**18.768.929**	6.511.877
Provision for sales commissions	**1.920.005**	1.011.614
Provision for vacation pay liability	**2.235.464**	1.922.831
Provision for legal cases	**200.000**	-
	206.459.342	103.611.153

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 movements of provision for other cost are as follows:

	December 31, 2011	December 31, 2010
January 1	**94.164.831**	51.518.026
Additional provision	**56.880.993**	40.570.629
Foreign exchange valuation	**32.289.120**	2.076.176
	183.334.944	94.164.831

Warranty provision

The Company provides one year warranty for minibus and Land Rover vehicles and 2 years warranty for certain armoured vehicle models and midi-busses 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:

	December 31, 2011	December 31, 2010
January 1	**6.511.877**	6.184.720
Additional provision (Note 22)	**28.823.464**	8.536.235
Realized	**(16.566.412)**	(8.209.078)
	18.768.929	6.511.877

(Currency –Turkish Lira (TL) unless otherwise indicated)

16. Provisions, contingent assets and liabilities (continued)

Provision for sales commissions

The movements of provision for sales commission are as follows:

	December 31, 2011	December 31, 2010
January 1	**1.011.614**	-
Increase	**10.516.416**	2.250.893
Realized	**(9.608.025)**	(1.239.279)
	1.920.005	1.011.614

Provision for vacation pay liability

The movements of provision for vacation pay liability are as follows:

	December 31, 2011	December 31, 2010
January 1	**1.922.831**	1.438.270
Increase in provision, net (Note 22)	**312.633**	484.561
	2.235.464	1.922.831

Commitments and contingencies

As of December 31, 2011 and December 31, 2010, the tables which represent the position of guarantees, pledges and mortgages are as follow:

Guarantees given by the Company	**December 31, 2011**	December 31, 2010
a. Total amount of guarantees, pledges and mortgages given in the name of legal entity	**649.585.517**	415.391.058
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	**649.585.517**	415.391.058

(Currency –Turkish Lira (TL) unless otherwise indicated)

16. Provisions, contingent assets and liabilities (continued)

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

	December 31, 2011		December 31, 2010	
	Original currency	**TL**	Original currency	TL
U.S. Dollars	**301.322.506**	**569.168.082**	236.582.361	365.756.330
Euro	**13.492.893**	**32.973.933**	10.170.955	20.841.304
GBP	**12.027**	**35.081**	22.500	53.743
Turkish Lira	**47.408.421**	**47.408.421**	28.739.681	28.739.681
		649.585.517		415.391.058

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

	December 31, 2011	December 31, 2010
Guarantee letters given		
Under secretariat of Ministry of Defense	**439.881.761**	326.155.872
Other	**209.703.756**	89.235.186
	649.585.517	415.391.058

Letters of guarantees

a) Guarantees given as of December 31, 2011 and December 31, 2010 is as follows:

	December 31, 2011	December 31, 2010
Bank letters of guarantee (*)	**649.585.517**	415.391.058
	649.585.517	415.391.058

(*) Bank letter of guarantee amounting to TL 439.881.761 are given to Under Secretariat of Ministry of Defense within the scope of Altay Project. (December 31, 2010 – TL 326.155.872)

(Currency –Turkish Lira (TL) unless otherwise indicated)

16. Provisions, contingent assets and liabilities (continued)

b) Guarantees received as of December 31, 2011 and December 31, 2010 is as follows:

	December 31, 2011	December 31, 2010
Bank letters of guarantee (**)	**225.181.079**	162.541.441
Guarantee notes	**53.460.035**	1.000.000
Mortgages received	**3.842.000**	5.042.000
Guarantee checks	**-**	135.000
	282.483.114	168.718.441

(**) Bank letters of guarantee amounting to TL 116.160.705 are obtained from the sub-contractors for Altay Project (December 31, 2010 - TL 107.830.620).

17. Employee benefits

	December 31, 2011	December 31, 2010
Reserve for retirement pay	**9.110.483**	7.088.568
Total	**9.110.483**	7.088.568

Reserve for retirement pay

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 2.732 for each year of service as of December 31, 2011 (December 31, 2010 - TL 2.517).

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.

(Currency –Turkish Lira (TL) unless otherwise indicated)

17. Employee benefits (continued)

The CMB Accounting Standards 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:

	December 31, 2011	December 31, 2010
Discount rate (%)	**4,63**	4,66
Turnover rate to estimate the probability of retirement (%)	**7**	8

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 reserve for retirement pay are as follows:

	December 31, 2011	December 31, 2010
January 1	**7.088.568**	5.616.418
Interest expense	**708.857**	561.642
Current year provision (including actuarial gains/losses)	**2.440.400**	1.920.692
Payments	**(1.127.342)**	(1.010.184)
	9.110.483	7.088.568

(Currency –Turkish Lira (TL) unless otherwise indicated)

18. Other assets and liabilities

	December 31, 2011	December 31, 2010
a) Other current assets:		
Advances given	**105.134.614**	43.634.290
Value added tax receivables	**25.754.551**	14.634.076
Prepaid expenses	**1.373.991**	828.104
Other	**1.442.035**	1.298.837
Total	**133.705.191**	60.395.307
b) Other current liabilities:		
Taxes and funds payable	**5.253.198**	4.772.726
Social security premiums payable	**2.476.644**	2.044.993
Deferred special consumption tax	**100.355**	133.358
Other	**403.778**	180.250
Total	**8.233.975**	7.131.327

19. Shareholders' equity

Share Capital

As of December 31, 2011 and 2010, the principal shareholders and their respective shareholding percentages are as follows:

	December 31, 2011		December 31, 2010	
Shareholders	**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	

19. Shareholders' equity (continued)

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 used to absorb losses in the event that the general reserve is exhausted.

Listed companies are subject to dividend requirements regulated by the CMB as follows:

In accordance with the Capital Market Board Communiqué IV, Nr: 27, article 5th, in the listed companies, the first dividend shall not be below %20 of the distributable profit deducted the accumulated losses. Based on their decisions taken in the ordinary general boards, listed joint-stock companies have their right to distribute dividends in cash, in share certificates, in partial distribution within cash or share certificates while retaining a portion in the partnership.

Based on the decision of CMB, distributable profit -calculated upon the regulations of CMB related with the dividend distribution- shall be fully distributed if the amount is adequate to be provided by the distributable profits with respect to the statutory books, otherwise, all of the net distributable amount in the statutory books shall be distributed. No profit distribution shall be made in the case of tax loss is met in either local books or the financial statements prepared in accordance with CMB regulations.

Based on the decision of CMB dated January 27, 2010, it is decided not to determine any minimum dividend payment distribution requirement for publicly held companies.

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used for in kind capital increase, dividend distribution in cash or the net loss deduction. In case inflation adjustment to issued capital is used as dividend distribution in cash, it is subject to corporation tax.

As of December 31, 2011, 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 TL 54.846.604 (December 31, 2010 – TL 20.778.314) and TL 63.640.101 (December 31, 2010 – TL 59.241.787), respectively. Current year net income of the Company in statutory books is TL 55.583.667 (December 31, 2010 – TL 36.775.511), other reserves to be distributed as dividend (without being subject to additional taxation) is TL 79.263.650 (December 31, 2010 – TL 58.868.141). After deduction of first legal reserves, current year net profit in statutory books is TL 55.583.667 (December 31, 2010 – TL 36.775.511). As of our report date, there is no decision of dividend distribution related to 2011.

(Currency –Turkish Lira (TL) unless otherwise indicated)

19. Shareholders' equity (continued)

In accordance with the Communiqué, as of December 31, 2011 and December 31, 2010, the details of equity, based on which the dividend will be distributed is as follows:

	December 31, 2011	December 31, 2010
Paid-in share capital	**24.000.000**	24.000.000
Inflation adjustment on equity items	**52.743.030**	52.743.030
Restricted reserves	**18.118.147**	16.738.147
Retained earnings		
- Extraordinary reserves	**52.690.018**	48.291.704
- Inflation adjustments on legal reserves	**10.950.083**	10.950.083
Net income for the year	**54.846.604**	20.778.314
Total shareholders' equity	**213.347.882**	173.501.278

As of December 31, 2011 and 2010, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

			December 31, 2011
	Historical Value	**Inflation adjustments on equity items**	**Restated Value**
Share capital	**24.000.000**	**52.743.030**	**76.743.030**
Legal reserves	**18.118.147**	**10.950.083**	**29.068.230**
Total	**42.118.147**	**63.693.113**	**105.811.260**

			December 31, 2010
	Historical Value	Inflation adjustments on equity items	Restated Value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	16.738.147	10.950.083	27.688.230
Total	40.738.147	63.693.113	104.431.260

(Currency –Turkish Lira (TL) unless otherwise indicated)

19. Shareholders' equity (continued)

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

	December 31, 2011	December 31, 2010
Legal reserves	**18.118.147**	16.738.147
Extraordinary reserves	**79.263.650**	58.868.141
Total	**97.381.797**	75.606.288
Dividends distributed during the year based on previous year's net income per statutory financial statements	**15.000.000**	20.400.000
Dividend paid per share (kuruş)	**0,063**	0,085

The Company's share capital is fully paid, and consists of 24.000.000.000 shares with kuruş 0,1 par value each.

20. Sales and cost of sales

Net sales

	2011	2010
Domestic sales	**726.544.926**	448.419.381
Export sales	**164.180.669**	69.478.800
Gross sales	**890.725.595**	517.898.181
Less: sales discounts and sales returns	**(200.406)**	(501.687)
Net sales	**890.525.189**	517.396.494

Sales of the Company in terms of the number of vehicles sold are as follows:

	2011	2010
Commercial vehicle	**463.283.055**	271.182.909
Armoured vehicles	**253.065.734**	119.856.251
Other sales (*)	**174.176.400**	126.357.334
	890.525.189	517.396.494

(*) TL 91.827.072 of this amount is related to revenues of uncompleted contracts (2010 - 79.561.711 TL)

(Currency –Turkish Lira (TL) unless otherwise indicated)

20. Sales and cost of sales (continued)

Cost of sales

	2011	2010
Cost of finished goods sold	**667.811.517**	402.923.165
Cost of merchandise sold (Note 22)	**27.009.109**	23.377.017
	694.820.626	426.300.182

21. Research and development expenses, marketing, selling and distribution expenses, general and administrative expenses.

	2011	2010
Selling and marketing expenses	**83.213.660**	42.376.871
General and administrative expenses	**25.161.744**	19.913.065
Research and development expenses	**12.355.838**	7.186.302
	120.731.242	69.476.238

22. Expenses by nature

	2011	2010
Cost of raw material and consumption goods	**610.158.079**	334.665.957
Personnel expenses (Note 22)	**93.856.134**	66.683.358
Manufacturing overhead expenses	**17.029.216**	11.300.213
Warranty reserve expense (Note 16)	**28.823.464**	8.536.235
Other selling expenses	**28.733.357**	1.266.335
Depreciation and amortization expense	**20.412.483**	14.799.366
Transportation and insurance expense	**5.244.587**	4.272.898
Exhibition and fair expenses	**3.465.673**	2.555.148
Change in finished goods and work-in-process	**(40.732.637)**	4.680.652
Cost of merchandise sold (Note 20)	**27.009.109**	23.377.017
Impairment in inventories (Note 10)	**1.575.452**	-
Other expenses	**19.976.951**	23.639.241
	815.551.868	495.776.420

(Currency –Turkish Lira (TL) unless otherwise indicated)

22. Expenses by nature (continued)

The breakdown of personnel expenses is as follows:

	2011	2010
With respect to the account:		
Cost of sales and inventories on hand	**55.115.857**	37.687.411
Costs related to uncompleted contracts	**13.931.641**	8.719.130
Capitalized development expenditures	**13.172.755**	11.779.396
General and administrative expenses	**12.706.471**	11.044.838
Selling and marketing expenses	**11.434.451**	8.534.740
Research and development expenses	**667.714**	697.239
	107.028.889	78.462.754
By nature:		
Wages and salaries	**81.508.476**	60.685.437
Social security contributions	**12.494.883**	9.770.756
Other social benefits	**9.563.640**	5.039.666
Employee termination benefits	**3.149.257**	2.482.334
Provision for vacation pay liability (Note 16)	**312.633**	484.561
	107.028.889	78.462.754

23. Other operating income / expenses

	2011	2010
Other income		
R&D incentive income	**616.601**	1.729.196
Gain on sale of fixed asset	**1.020.382**	2.858.179
Price adjustment income	**1.147.517**	440.710
R&D test center income	**374.069**	64.078
Other	**1.058.424**	678.773
Total	**4.216.993**	5.770.936

	2011	2010
Other expense		
Provision for doubtful receivables (Note 8)	**(7.944.800)**	(1.535.319)
Other	**(403.664)**	(214.429)
	(8.348.464)	(1.749.748)

(Currency –Turkish Lira (TL) unless otherwise indicated)

24. Financial income

	2011	2010
Foreign exchange gains	**54.018.008**	26.544.615
Forward income	**19.655.520**	1.711.735
Term difference income related with sales	**12.947.710**	6.048.333
Interest income from time deposits	**1.558.703**	746.729
Foreign exchange gains on bank borrowings	**132.000**	2.585.250
Total	**88.311.941**	37.636.662

25. Financial expense

	2011	2010
Foreign exchange losses	**(69.860.413)**	(29.771.945)
Interest expense on bank borrowings	**(16.075.841)**	(12.365.701)
Forward expense	**(7.937.948)**	(984.007)
Foreign exchange losses on bank borrowings	**(3.503.248)**	(48.900)
Unearned financial expense	**-**	(30.516)
Total	**(97.377.450)**	(43.201.069)

26. Tax assets and liabilities

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

In Turkey, the corporation tax rate is 20% (2010 - 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.

(Currency –Turkish Lira (TL) unless otherwise indicated)

26. Tax assets and liabilities (continued)

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 2011 and 2010.

As a result of its research and development expenditures made in 2011 amounting to TL 26.657.372 (2010 – TL 20.749.149), 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 December 31, 2011 and 2010, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	December 31, 2011	December 31, 2010
Income tax payable	**11.633.639**	4.581.519
(-) Prepaid tax	**(8.543.854)**	-
Income tax payable, net	**3.089.785**	4.581.519

The breakdown of total tax expense for the year ended December 31, 2011 and 2010:

	2011	2010
Deferred tax income	**4.703.902**	5.282.978
Current tax expense	**(11.633.639)**	(4.581.519)
Total tax (expense) / income	**(6.929.737)**	701.459

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

	2011	2010
Profit before tax	**61.776.341**	20.076.855
Income tax charge at effective tax rate 20%	**(12.355.268)**	(4.015.371)
Effect of exemptions and incentives	**5.331.474**	4.485.079
Other permanent differences	**94.057**	231.751
Total tax (expense) / income	**(6.929.737)**	701.459

(Currency –Turkish Lira (TL) unless otherwise indicated)

26. Tax assets and liabilities (continued)

As of December 31, 2011 and 2010, 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)	
	December 31, 2011	December 31, 2010	**December 31, 2011**	December 31, 2010
Property, plant and equipment	**(8.101.095)**	(6.212.127)	**1.861.076**	2.238.869
Intangibles	**(12.721.283)**	(9.250.865)	**(2.544.257)**	(1.850.173)
Deferred financial expense	**(517.981)**	(189.676)	**(103.596)**	(37.935)
Inventories	**(325.962)**	(433.007)	**(65.192)**	(86.601)
Warranty reserve	**18.768.929**	6.511.876	**3.753.786**	1.302.375
Reserve for retirement pay	**9.110.483**	7.088.568	**1.822.097**	1.417.714
Deferred financial income	**1.230.242**	543.512	**246.048**	108.702
Other provisions	**7.704.234**	7.313.549	**1.540.847**	1.462.710
Adjustment for percentage of completion method on construction projects	**38.906.026**	17.723.696	**7.781.205**	3.544.739
Other	**(8.218.310)**	(779.753)	**(1.643.662)**	(155.950)
Deferred tax asset			**12.648.352**	7.944.450

The movement of deferred tax asset for the years ended December 31, 2011 and 2010 is as follows:

	December 31, 2011	December 31, 2010
January 1	**7.944.450**	2.661.472
Deferred tax credit	**4.703.902**	5.282.978
	12.648.352	7.944.450

27. 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 year 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.

(Currency –Turkish Lira (TL) unless otherwise indicated)

27. Earnings per share (continued)

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.

	December 31, 2011	December 31, 2010
Net income attributable to shareholders (TL)	**54.846.604**	20.778.314
Weighted average number of issued shares	**24.000.000.000**	24.000.000.000
Earnings per share (kuruş)	**0,229**	0,087

28. Related party disclosures

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

i) Due from and due to related party balances as of December 31, 2011 and December 31, 2010:

Due from related parties	**December 31, 2011**	December 31, 2010
Ram Dış Ticaret A.Ş.(Ram Dış) (1) (*)	**19.008.642**	18.799.156
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	**572.854**	8.834
Ford Otosan A.Ş. (1)	**194.195**	56.323
RMK Marine Gemi Yapım San. Deniz Taş. İşl. A.Ş. (1)	**80.538**	25.966
Aygaz A.Ş. (1)	**6.135**	-
Total	**19.862.364**	18.890.279

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

(Currency –Turkish Lira (TL) unless otherwise indicated)

28. Related party disclosures (continued)

Due to related parties	December 31, 2011	December 31, 2010
Zer Merkezi Hizmetler A.Ş. (1)	**1.224.505**	1.056.504
Ram Dış Ticaret A.Ş. (1)	**900.459**	1.024.253
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	**621.707**	51.196
Setur Servis Turistik A.Ş. (1)	**461.095**	224.384
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	**407.759**	203.774
Ark İnşaat A.Ş. (1)	**402.744**	-
Aygaz Doğal Gaz Toptan Satış A.Ş. (1)	**262.254**	-
Otokar Europe SAS (3)	**194.822**	-
Koçtaş Yapı Marketleri A.Ş. (1)	**155.537**	17.838
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	**121.995**	-
Ram Sigorta Aracılık Hz. A.Ş. (1)	**118.255**	91.671
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	**103.623**	125.872
Opet Petrolcülük A.Ş. (1)	**67.702**	19.210
Promena Elektronik Ticaret A.Ş. (1)	**17.336**	38.466
Tat Konserve San. A.Ş. (1)	**13.598**	-
Koç Holding A.Ş. (2)	**9.069**	6.671
Vehbi Koç Vakfı Amerikan Hastanesi (1)	**1.918**	-
Arçelik A.Ş. (1)	**1.764**	653
Eltek Elektrik Enerji İth.İhr.Top.Tic. A.Ş. (1)	**-**	275.599
Koç.net Hab.Tek. İlt. Hiz. A.Ş. (1)	**-**	29.982
Palmira Turizm Ticaret A.Ş. (1)	**-**	288
Platform Araştırma ve Geliştirme Taş.Tic. A.Ş. (1)	**-**	210.382
Total	**5.086.142**	3.376.743

(1) Shareholders' subsidiary
(2) Shareholder
(3) Financial investment of the Company

ii) Major sales and purchase transactions with related parties:

Product sales and service revenue	2011	2010
Ram Dış Ticaret A.Ş. (1) (*)	**100.196.591**	39.850.839
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	**4.739.830**	-
Ford Otosan A.Ş.(2)	**1.424.499**	3.789
Zer Merkezi Hizmetler A.Ş. (1)	**1.246.480**	456.016
Aygaz A.Ş. (1)	**86.710**	162.857
Opet Petrolcülük A.Ş. (1)	**1.656**	-
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	**-**	161.500
Total	**107.695.766**	40.635.001

(*) The sales to Ram Dış comprise export sales made to third party customers.

(Currency –Turkish Lira (TL) unless otherwise indicated)

28. Related party disclosures (continued)

Purchase of property, plant and equipment	2011	2010
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	**1.498.378**	1.240.084
Ark İnşaat A.Ş. (1)	**1.173.240**	-
Zer Merkezi Hizmetler A.Ş. (1)	**71.703**	5.019
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	**48.383**	59.794
Arçelik A.Ş. (1)	**21.833**	2.310
Bilkom A.Ş. (1)	**9.817**	-
Koç.net Hab.Tek. İlt. Hiz. A.Ş. (1) (**)	**5.825**	91.210
Koçtaş Yapı Marketleri A.Ş. (1)	**-**	1.170
Total	**2.829.179**	1.399.587

(**) As of November 30, 2011 Koç net Haberleşme Teknik İletişim Hizmetleri A.Ş. is sold to a third party by its shareholders. Transactions until November 30, 2011 are disclosed as related party transactions.

Inventory purchases	2011	2010
Zer Merkezi Hizmetler A.Ş. (1)	**10.845.305**	5.579.493
Ram Dış Ticaret A.Ş. (1)	**9.330.678**	3.855.965
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	**2.759.744**	1.259.185
Aygaz Doğal Gaz Toptan Satış A.Ş. (1)	**1.398.498**	-
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	**906.208**	-
Opet Petrolcülük A.Ş. (1)	**692.529**	293.080
Koçtaş Yapı Marketleri A.Ş. (1)	**221.801**	30.694
Arçelik A.Ş. (1)	**13.514**	3.453
Total	**26.168.277**	11.021.870

(1) Shareholders' subsidiary
(2) Shareholder

(Currency –Turkish Lira (TL) unless otherwise indicated)

28. Related party disclosures (continued)

Services received	2011	2010
Setur Servis Turistik A.Ş. (1)	**2.694.594**	1.488.070
Eltek Elektrik Enerji İth.İhr.Top.Tic. A.Ş. (1)	**1.690.458**	1.537.021
Koç Holding A.Ş. (2)	**1.170.148**	1.162.663
Ram Sigorta Aracılık Hz. A.Ş. (1) (*)	**1.161.409**	1.241.101
Ram Dış Ticaret A.Ş. (1)	**1.023.206**	1.237.287
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	**781.813**	614.221
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	**424.062**	209.635
Koç.net Hbl.Tek.İlt.Hz.A.Ş. (1) (**)	**275.648**	298.566
Koç Üniversitesi (1)	**179.264**	9.616
Promena Elektronik Ticaret A.Ş. (1)	**158.110**	119.109
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	**154.255**	-
Platform Araştırma ve Geliştirme Taş.Tic. A.Ş. (1)	**152.388**	178.983
Vehbi Koç Vakfı Amerikan Hastanesi (1)	**26.730**	-
Yapı Kredi Sigorta A.Ş. (1)	**23.520**	-
Tat Konserve San. A.Ş. (1)	**13.617**	-
Tanı Pazarlama ve İletişim Hizmetleri A.Ş. (1)	**13.318**	-
Palmira Turizm Ticaret A.Ş. (1)	**4.605**	3.623
Bilkom A.Ş. (1)	**1.444**	-
Otokoç Sigorta Aracılık Hizmetleri A.Ş. (1)	**1.184**	-
Rahmi Koç Vakfı Müzesi (1)	**-**	1.962
Total	**9.949.773**	8.101.857

(*) It includes paid and accrued premium in 2011 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Bank deposits	December 31, 2011	December 31, 2010
Yapı ve Kredi Bankası A.Ş. (1)		
- demand deposits	**1.600.896**	4.201.751
	1.600.896	4.201.751

Checks and notes in collection	December 31, 2011	December 31, 2010
Yapı ve Kredi Bankası A.Ş. (1)	**45.089.091**	14.226.501
	45.089.091	14.226.501

(1) Shareholders' subsidiary
(2) Shareholder

(Currency –Turkish Lira (TL) unless otherwise indicated)

28. Related party disclosures (continued)

For the year ended December 31, financial income and expense with related parties:

Interest income	2011	2010
Yapı ve Kredi Bankası A.Ş. (1)	**212.503**	47.648
Total	**212.503**	47.648

Foreign exchange gains	2011	2010
Ram Dış (1)	**10.564.359**	7.039.375
Yapı ve Kredi Bankası A.Ş. (1)	**1.129.765**	1.104.195
Other (1)	**1.732**	690
Total	**11.695.856**	8.144.260

(1) Shareholders' subsidiary

Forward gains /(losses)	2011	2010
Yapı ve Kredi Bankası A.Ş.		
Forward gains	**-**	1.044.541
Forward loss	**-**	(429.620)
Total	**-**	614.921

Foreign exchange losses	2011	2010
Ram Dış (1)	**24.393.296**	9.308.719
Yapı ve Kredi Bankası A.Ş. (1)	**975.834**	724.474
Other (1)	**25.529**	378
Total	**25.394.659**	10.033.571

Interest expense	2011	2010
Yapı ve Kredi Bankası A.Ş. (1)	**130.367**	4.533.457
Total	**130.367**	4.533.457

(1) Shareholders' subsidiary

28. Related party disclosures (continued)

Benefits provided to executives

Salaries and similar benefits provided to the executive management by the Company for the year ended December 31, 2011 amounted to TL 7.762.314 (2010 - TL 5.534.095).

29. 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).

(Currency –Turkish Lira (TL) unless otherwise indicated)

29. Nature and level of risks arising from financial instruments (continued)

	Receivables			
December 31, 2011	**Trade receivables**	**Other receivables(3)**	**Bank deposits**	**Derivative instruments**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	**297.258.930**	**105.141.094**	**2.897.205**	**-**
- Maximum risk secured by guarantee (2)	**(128.790.330)**	**-**	**-**	**-**
A. Net book value of financial assets neither overdue nor impaired	**294.143.908**	**105.141.094**	**2.897.205**	**-**
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	**-**	**-**	**-**	**-**
C. Net book value of assets overdue but not impaired	**1.473.783**	**-**	**-**	**-**
D. Net book value of impaired assets	**1.641.239**	**-**	**-**	**-**
- Overdue (gross book value)	**19.978.775**	**-**	**-**	**-**
- Impairment (-) (Note 8)	**(18.337.536)**	**-**	**-**	**-**
- Net value under guarantee	**1.641.239**	**-**	**-**	**-**
- Not overdue (gross book value)	**-**	**-**	**-**	**-**
- Impairment (-)	**-**	**-**	**-**	**-**
- Net value under guarantee	**-**	**-**	**-**	**-**
E. Off- balance sheet items having credit risk	**-**	**-**	**-**	**-**

	Receivables			
December 31, 2010	**Trade receivables**	**Other receivables(3)**	**Bank deposits**	**Derivative instruments**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	177.675.195	43.640.787	110.474.962	-
- Maximum risk secured by guarantee (2)	(187.644.984)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	174.240.909	43.640.787	110.474.962	-
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	2.657.583	-	-	-
D. Net book value of impaired assets	776.703	-	-	-
- Overdue (gross book value)	11.316.949	-	-	-
- Impairment (-) (Note 8)	(10.540.246)	-	-	-
- Net value under guarantee	385.474	-	-	-
- 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.
(3) The major amount of other receivables consists of advances given.

(Currency –Turkish Lira (TL) unless otherwise indicated)

29. 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, 2011 and December 31, 2010, maturities of gross trade payables and financial liabilities are as follows:

December 31, 2011

Maturities per agreements	Book value	Total cash outflow per agreement (=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	**179.339.871**	**189.507.648**	**16.888.534**	**88.111.818**	**84.507.296**	**-**
Trade payables	**78.495.682**	**79.015.538**	**78.849.488**	**166.050**	**-**	**-**

Expected maturities	Book value	Total expected cash outflow (=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						
Other payables	**6.580.275**	**6.580.275**	**6.580.275**	**-**	**-**	**-**
Other current liabilities	**8.233.975**	**8.233.975**	**8.233.975**	**-**	**-**	**-**

Expected maturities (or maturities per agreement)	Book value	Total cash outflow expected / per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Derivative financial liabilities (net)	**9.110.483**	**9.110.483**	**9.110.483**	**-**	**-**	**-**
Derivative cash inflows	**9.110.483**	**9.110.483**	**9.110.483**	**-**	**-**	**-**
Derivative cash outflows	**-**	**-**	**-**	**-**	**-**	**-**

(Currency –Turkish Lira (TL) unless otherwise indicated)

29. Nature and level of risks arising from financial instruments (continued)

December 31, 2010

Maturities per agreements	Book value	Total cash outflow per agreement (=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	128.882.457	138.196.972	17.062.793	37.857.191	83.276.988	-
Trade payables	47.561.560	47.751.405	43.733.173	4.018.232	-	-

Expected maturities	Book value	Total expected cash outflow (=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						
Other payables	3.501.606	3.501.607	3.469.360	25.350	6.897	-
Other current liabilities	7.131.327	7.131.327	7.131.327	-	-	-

Expected maturities (or maturities per agreement)	Book value	Total cash outflow expected / per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Derivative financial liabilities (net)	182.808	182.808	-	-	-	-
Derivative cash inflows	411.764	411.764	411.764	-	-	-
Derivative cash outflows	(228.956)	(228.956)	-	(228.956)	-	-

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.

(Currency –Turkish Lira (TL) unless otherwise indicated)

29. Nature and level of risks arising from financial instruments (continued)

The accompanying table represents the foreign currency risk of the Company;

					Table of foreign currency position
					December 31, 2011
		TL equivalent (functional currency)	**USD**	**EUR**	**GBP**
1.	Trade receivables	174.028.497	23.283.527	53.135.721	66.907
2a.	Monetary financial assets (including cash, bank accounts)	118.520.882	53.071.795	7.377.015	84.203
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**292.549.379**	**76.355.322**	**60.512.736**	**151.110**
5.	Trade receivables	81.455.466	-	33.331.478	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-current assets (5+6+7)**	**81.455.466**	**-**	**33.331.478**	**-**
9.	**Total assets(4+8)**	**374.004.845**	**76.355.322**	**93.844.214**	**151.110**
10.	Trade payables	(31.669.169)	(3.534.468)	(6.277.392)	(3.308.955)
11.	Financial liabilities	-	-	-	-
12a.	Monetary other liabilities	(331.684.237)	(175.426.410)	(131.472)	-
12b.	Non-monetary other liabilities	-	-	-	-
13.	**Current liabilities (10+11+12)**	**(363.353.406)**	**(178.960.878)**	**(6.408.864)**	**(3.308.955)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	-	-	-	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**-**	**-**	**-**	**-**
18.	**Total liabilities (13+17)**	**(363.353.406)**	**(178.960.878)**	**(6.408.864)**	**(3.308.955)**
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	-	-	-	-
19a.	Hedged total assets amount	-	-	-	-
19b.	Hedged total liabilities amount	-	-	-	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**10.651.439**	**(102.605.556)**	**87.435.350**	**(3.157.845)**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**10.651.439**	**(102.605.556)**	**87.435.350**	**(3.157.845)**
22.	Total fair value of financial instruments used for foreign currency hedging				
23.	Export	164.179.416	67.880.140	20.41.483	140.177
24.	Import	304.208.716	63.226.052	73.545.055	9.633.042

As of December 31, 2011, the Company signed forward agreements amounting to USD 110.153.300 and GBP 3.250.000. According to the agreements, the Company will purchase the related amounts in consideration to EUR 85.328.550.

(Currency –Turkish Lira (TL) unless otherwise indicated)

29. Nature and level of risks arising from financial instruments (continued)

		Table of foreign currency position			
					December 31, 2010
		TL equivalent (functional currency)	USD	EUR	GBP
1.	Trade receivables	104.009.947	14.725.861	39.292.550	305.368
2a.	Monetary financial assets (including cash, bank accounts)	155.109.729	91.024.578	7.012.640	6.753
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**259.119.676**	**105.750.439**	**46.305.190**	**312.121**
5.	Trade receivables	41.433.423	-	20.220.303	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-current assets (5+6+7)**	**41.433.423**	**-**	**20.220.303**	**-**
9.	**Total assets(4+8)**	**300.553.099**	**105.750.439**	**66.525.493**	**312.121**
10.	Trade payables	(15.824.373)	-	(4.592.477)	(2.685.225)
11.	Financial liabilities	(21.265.824)	-	(10.378.129)	-
12a.	Monetary other liabilities	(247.370.105)	(159.057.179)	(716.269)	-
12b.	Non-monetary other liabilities	-	-	-	-
13.	**Current liabilities (10+11+12)**	**(284.460.302)**	**(159.057.179)**	**(15.686.875)**	**(2.685.225)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(15.469.279)	-	(7.549.304)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**(15.469.279)**	**-**	**(7.549.304)**	**-**
18.	**Total liabilities (13+17)**	**(299.929.581)**	**(159.057.179)**	**(23.236.179)**	**(2.685.225)**
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	-	-	-	-
19a.	Hedged total assets amount	-	-	-	-
19b.	Hedged total liabilities amount	-	-	-	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**623.518**	**(53.306.740)**	**43.289.314**	**(2.373.104)**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**623.518**	**(53.306.740)**	**43.289.314**	**(2.373.104)**
22.	Total fair value of financial instruments used for foreign currency hedging	-	-	-	-
23.	Export	69.424.341	9.639.936	27.171.629	359.295
24.	Import	129.399.072	30.428.251	35.587.455	5.851.327

As of December 31, 2010, the Company signed forward agreements amounting to USD 56.440.600 and GBP 2.400.000. According to the agreements, the Company will purchase the related amounts in consideration to EUR 44.949.712.

(Currency –Turkish Lira (TL) unless otherwise indicated)

29. 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 December 31, 2011 and 2010:

		Exchange rate sensitivity analysis table	
		December 31, 2011	
		Profit before tax	**Profit before tax**
		Appreciation of foreign currency	**Depreciation of foreign currency**
	In case 10% appreciation of USD against TL:		
1-	USD net asset/liability	**(19.381.163)**	**19.381.163**
2-	Amount hedged for USD risk (-)	**-**	**-**
3-	**USD net effect (1+2)**	**(19.381.163)**	**19.381.163**
	In case 10% appreciation of EUR against TL:		
4-	EUR net asset/liability	**21.367.451**	**(21.367.451)**
5-	Amount hedged for EUR risk (-)	**-**	**-**
6-	**EUR net effect (4+5)**	**21.367.451**	**(21.367.451)**
	In case 10% appreciation of GBP against TL:		
7-	GBP net asset/liability	**(921.144)**	**921.144**
8-	Amount hedged for GBP risk (-)	**-**	**-**
9-	**GBP net effect (7+8)**	**(921.144)**	**921.144**
	Total (3+6+9)	**1.065.144**	**(1.065.144)**

		Exchange rate sensitivity analysis table	
		December 31, 2010	
		Profit before tax	Profit before tax
		Appreciation of foreign currency	Appreciation of foreign currency
	In case 10% appreciation of USD against TL:		
1-	USD net asset/liability	(8.241.222)	8.241.222
2-	Amount hedged for USD risk (-)	-	-
3-	**USD net effect (1+2)**	(8.241.222)	8.241.222
	In case 10% appreciation of EUR against TL:		
4-	EUR net asset/liability	8.870.414	(8.870.414)
5-	Amount hedged for EUR risk (-)	-	-
6-	**EUR net effect (4+5)**	8.870.414	(8.870.414)
	In case 10% appreciation of GBP against TL:		
7-	GBP net asset/liability	(566.840)	566.840
8-	Amount hedged for GBP risk (-)	-	-
9-	**GBP net effect (7+8)**	(566.840)	566.840
	Total (3+6+9)	62.352	(62.352)

(Currency –Turkish Lira (TL) unless otherwise indicated)

29. 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, 2011 and 2010, 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 ratio. This ratio 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 Aralık 2011	31 Aralık 2010
Total financial debt	**179.339.871**	128.882.457
Less: Cash and cash equivalents (Note 4)	**(4.470.424)**	(111.564.742)
Net financial debt	**174.869.447**	17.317.715
Total equity	**213.347.882**	173.501.278
Financial debt/shareholders' equity rate	**82%**	10%

(Currency –Turkish Lira (TL) unless otherwise indicated)

30. 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, 2011 and 2010:

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2011				
Derivative financial instruments	**-**	**9.022.907**	-	**9.022.907**
Total	**-**	**9.022.907**	-	**9.022.907**
December 31, 2010				
Derivative financial instruments	**-**	182.808	-	182.808
Total	-	182.808	-	182.808

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.

31. Subsequent Events

None.

32. 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.