OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

(ORIGINALLY ISSUED IN TURKISH)

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") and its subsidiaries (together will be referred as the "Group"), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditor's Responsibility

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

   An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on independent auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Otokar Otomotiv ve Savunma Sanayi A.Ş. and its subsidiaries as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Turkish Accounting Standards.

Other Responsibilities Arising From Regulatory Requirements

5. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 9 February 2017.

6. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

7. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Beste Gücümen, SMMM
Partner

Istanbul, 9 February 2017

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY -31 DECEMBER 2016

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CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016

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

	Notes	(Audited) 31 December 2016	(Audited) 31 December 2015
Assets			
Current Assets			
Cash and cash equivalents	4	38,598,352	58,736,065
Trade receivables	8	388,658,136	344,453,922
Due from related parties	*27*	*29,436,843*	*106,906,185*
Due from other parties	*8*	*359,221,293*	*237,547,737*
Other receivables	9	19,588	2,090
Due from customers on contract works	11	245,830,180	-
Inventories	10	493,870,356	427,975,544
Derivative financial instruments	7	51,800	146,636
Prepaid expenses	17	176,765,729	122,691,548
Other current assets	17	106,137,493	65,687,162
Total current assets		**1,449,931,634**	**1,019,692,967**
Non-current assets			
Trade receivables	8	9,173,544	100,295,845
Other receivables	9	234,084	65,853
Due from customers on contract works	11	-	188,278,141
Financial investments	5	41,398	239,280
Property, plant and equipment	12	105,101,885	103,757,339
Intangibles	13	181,931,713	155,419,078
Deferred tax asset	25	37,853,384	37,313,671
Total non-current assets		**334,336,008**	**585,369,207**
Total assets		**1,784,267,642**	**1,605,062,174**

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

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016

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

	Notes	(Audited) 31 December 2016	(Audited) 31 December 2015
Liabilities			
Current liabilities			
Short-term borrowings	6	2,414	375,402
Short-term portion of long-term borrowings	6	4,669,400	105,607,359
Trade payables	8	401,144,983	165,819,465
Due to related parties	*27*	*11,016,714*	*27,169,350*
Due to other parties	*8*	*390,128,269*	*138,650,115*
Employee benefit obligations	17	21,439,674	18,137,584
Other payables, third parties	9	37,958,298	36,228,439
Current income tax liabilities	25	-	2,093,694
Deferred income	17	200,624,150	176,292,725
Government grants	14	2,155,912	2,056,306
Short-term provisions	15	387,143,992	276,300,155
Provisions for employee benefits		*8,490,684*	*6,651,542*
Other provisions		*378,653,308*	*269,648,613*
Other current liabilities	17	11,200,087	1,978,569
Total current liabilities		**1,066,338,910**	**784,889,698**
Non-current liabilities			
Borrowings	6	425,447,263	509,295,075
Government grants	14	3,381,725	5,570,470
Long-term provisions		38,387,961	31,755,416
Provisions for employee benefits	*16*	*28,087,775*	*22,321,490*
Other provisions	*15*	*10,300,186*	*9,433,926*
Deferred income	17	7,753,691	28,312,416
Total non-current liabilities		**474,970,640**	**574,933,377**
Total liabilities		**1,541,309,550**	**1,359,823,075**
Equity			
Paid-in share capital	18	24,000,000	24,000,000
Inflation adjustment on share capital	18	52,743,030	52,743,030
Restricted reserves	18	54,014,610	46,838,147
Accumulated other comprehensive income and expense that will not be reclassfied to statement of profit or loss	18	(4,985,845)	(3,859,283)
Defined benefit plans remeasurement losses	*18*	*(4,985,845)*	*(3,859,283)*
Accumulated other comprehensive income and expense that may be reclassfied to statement of profit or loss		1,328,609	-
Currency translation differences		*1,328,609*	-
Retained earnings	18	46,131,822	46,011,054
Net profit for the period	18	69,725,866	79,506,151
Total equity		**242,958,092**	**245,239,099**
Total liabilitis and equity		**1,784,267,642**	**1,605,062,174**

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2016

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

	Notes	(Audited) 1 January – 31 December 2016	(Audited) 1 January – 31 December 2015
Net Sales	19	1,634,514,698	1,433,967,887
Cost of Sales (-)	19	(1,224,669,421)	(1,063,026,461)
GROSS PROFIT		**409,845,277**	**370,941,426**
Marketing expenses (-)	20	(189,512,567)	(179,773,869)
General administrative expenses (-)	20	(63,132,410)	(49,337,559)
Research and development expenses (-)	20	(36,176,104)	(35,321,089)
Other operating income	22	422,908,979	225,643,639
Other operating expenses (-)	22	(379,289,741)	(192,492,080)
OPERATING PROFIT		**164,643,434**	**139,660,468**
Income from investing activities		86,627	1,479,803
Expense from investing activities (-)		-	-
OPERATING INCOME BEFORE FINANCIAL EXPENSES		**164,730,061**	**141,140,271**
Financial income	23	15,517,026	12,390,802
Financial expense (-)	24	(112,166,724)	(65,690,770)
PROFIT BEFORE TAX		**68,080,363**	**87,840,303**
Tax income/expense from continued operations			
Current tax income/(expense)	25	1,387,431	(6,663,642)
Deferred tax income/(expense)	25	258,072	(1,670,510)
PROFIT FOR THE PERIOD		**69,725,866**	**79,506,151**
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		(1,408,203)	1,756,965
Deferred tax income/(expense)		281,641	(351,393)
Items that may be reclassified to statement of profit or loss			
Currency translation differences		1,391,399	-
Other comprehensive income		**264,837**	**1,405,572**
TOTAL COMPREHENSIVE INCOME		**69,990,703**	**80,911,723**
Earnings per share (Piaster)	**26**	**0.291**	**0.331**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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

					Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss			
		Paid in share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity
Previous Period	**Opening Balances**	**24,000,000**	**52,743,030**	**38,958,147**	**(5,264,855)**	**-**	**61,119,856**	**72,771,198**	**244,327,376**
	Transfers	-	-	7,880,000	-	-	64,891,198	(72,771,198)	-
	Dividends paid	-	-	-	-	-	(80,000,000)	-	(80,000,000)
	Total comprehensive income	-	-	-	1,405,572	-	-	79,506,151	80,911,723
	Closing Balances	**24,000,000**	**52,743,030**	**46,838,147**	**(3,859,283)**	**-**	**46,011,054**	**79,506,151**	**245,239,099**
Current Period	**Opening Balances**	**24,000,000**	**52,743,030**	**46,838,147**	**(3,859,283)**	**-**	**46,011,054**	**79,506,151**	**245,239,099**
	Subsidiary subject to consolidation (Note 2)	-	-	96,463	-	(62,790)	(2,715,274)	2,409,891	(271,710)
	Transfers	-	-	7,080,000	-	-	74,836,042	(81,916,042)	-
	Dividends paid	-	-	-	-	-	(72,000,000)	-	(72,000,000)
	Toplam compheresive income	-	-	-	(1,126,562)	1,391,399	-	69,725,866	69,990,703
	Closing Balances	**24,000,000**	**52,743,030**	**54,014,610**	**(4,985,845)**	**1,328,609**	**46,131,822**	**69,725,866**	**242,958,092**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	(Audited) 1 January – 31 December 2016	(Audited) 1 January – 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES		**401,395,696**	**(81,231,773)**
Net profit for the period		69,725,866	79,506,151
Adjustments to reconcile income before taxes to net cash flows from operating activities:		**187,027,925**	**141,539,309**
Depreciation and amortization	12, 13	49,193,235	48,262,812
Adjustments in relation to impairment:		**3,397,410**	**2,225,324**
- Provision for doubtful receivables	8	3,486,467	2,924,718
- Provision for inventories	10, 21	(89,057)	(699,394)
Adjustments in relation to provision:		**41,231,992**	**60,268,110**
- Provision for employee benefits	16, 21	7,465,099	6,625,936
- Warranty provision expenses	15, 21	33,766,893	53,642,174
Adjustments in relation to interest income and expenses:		**77,231,360**	**39,649,586**
- Interest income on time deposits	23, 27	(527,484)	(768,391)
- Interest expense on borrowings	24.27	77,758,844	40,417,977
Adjustments in relation to unrealised foreign exchange gains and losses		**11,905,290**	**(1,578,100)**
Adjustments in relation to fair value gains and losses		**4,155,265**	**(5,808,620)**
- Fair value losses/(gains) on financial derivative instruments, net		4,155,265	(5,808,620)
Adjustments in relation to gains or loses on sales of property, plant and equipment		**(86,627)**	**(1,479,803)**
- Gain on sale of property, plant and equipments		(86,627)	(1,479,803)
Changes in net working capital		**174,411,089**	**(269,487,353)**
Change in trade receivables		**33,100,773**	**(39,154,445)**
Change in due from customers on contract works		**(57,552,039)**	**(58,423,752)**
Change in inventories		**(56,908,582)**	**(163,113,722)**
Change in trade payables		**232,546,401**	**84,295,469**
Other changes		**23,224,536**	**(93,090,903)**
- Changes in other operating assets		(94,939,370)	(94,968,127)
- Changes in other operating liabilities		118,163,906	1,877,224
Cash flows from operations		**431,164,880**	**(48,441,893)**
Payments in relation to employee benefits	16	**(3,107,017)**	**(3,516,672)**
Payments in relation to other provisions	15	(28,212,870)	(40,426,284)
Deductions/(payments) in relation to income tax		1,387,431	3,764,204
Other cash collections/(payments)		163,272	7,388,872
CASH FLOWS FROM INVESTING ACTIVITIES		**(76,629,399)**	**(52,251,862)**
Cash outflows from purchases due to obtaining control of subsidiaries		**(41,398)**	**-**
Proceeds from sale of property, plant and equipment and intangible assets		**1,155,278**	**3,054,451**
- Proceeds from sale of property, plant and equipment		1,155,278	3,054,451
Cash outflows due to purchase of property, plant and equipment and intangible assets		**(77,743,279)**	**(55,306,313)**
- Purchase of property, plant and equipment	12	(14,334,439)	(6,350,032)
- Purchase of intangible assets	13	(63,408,840)	(48,956,281)
CASH FLOWS FROM FINANCING ACTIVITIES		**(346,295,409)**	**147,692,003**
Cash inflow due to borrowings		**854,568,274**	**661,248,708**
- Proceeds from bank borrowings		854,568,274	661,248,708
Cash outflow due to repayment of borrowings		**(1,057,550,988)**	**(406,518,354)**
- Repayments of borrowings		(1,057,550,988)	(406,518,354)
Dividends paid		(72,000,000)	(80,000,000)
Interest paid		(71,840,179)	(27,806,742)
Interest received		527,484	768,391
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		**(21,529,112)**	**14,208,368**
Currency translation difference on cash and cash equivalents		**1,391,399**	**-**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(20,137,713)**	**14,208,368**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	**58,736,065**	**44,527,697**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**38,598,352**	**58,736,065**

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

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

The Company operates in the automotive industry and off road vehicles, armored vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production.

The registered adresses of the Company are as follows:

Headquarters:

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

Plant:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

Information related to subsidiary of the Company subject to consolidation is as follows:

Legal Name	Nature of operations	Country	Capital	Ownership (%)
Otokar Europe SAS	Trade	France	Euro 100,000 (239,280 TL)	100.00

In prior years, "Otokar Europe SAS" operations did not materially affect the financial statements of Otokar and accordingly; it had not been subject to consolidation and had been presented at historical cost value under financial investments. Since the magnitude of the operations of Otokar Europe SAS has reached to have material impact on the financial statements of the Company, Otokar has started to consolidate Otokar Europe SAS by the beginning of this year and prepared consolidated financial statements at 31 December 2016.

On 13 April 2016, the Company management has decided to initiate the establishment of a subsidiary; "Otokar Land Systems LLC" in United Arab Emirates with a capital of Arab Emirates Dirham ("AED") 50,000 in order to organise export activities and increase foreign sales especially to these regions. The establishment process was finalised as of the date of this consolidated financial statements. Since financial activities of Otokar Land System LLC has not started, the investment was presented under financial investments.

Otokar and its subsidiaries will be referred as the "Group" for the purpose of the preparation of this consolidated financial statements.

The Group has 2,297 personnel as of 31 December 2016 (31 December 2015: 2,105).

This consolidated financial statements for the year ended 31 December 2016 were authorized for issue and signed with the approval of the Internal Audit Committee by the Board of Directors of Otokar on 9 February 2017. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul A.Ş. ("BIST") since 1995. As of 31 December 2016 27.45% of the shares are quated on the BIST.

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS (Continued)

As of 31 December 2016, the principal shareholders and their respective shareholding percentages are as follows:

	(%)
Koç Holding A.Ş.	44.68
Ünver Holding A.Ş.	24.81
Publicly traded	27.45
Other	3.06
	100.00

Otokar Otomotiv ve Savunma Sanayi ve A.Ş. is controlled by Koç Holding A.Ş.

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.

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

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

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

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

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

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

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

2.2 Accounting errors and changes in accounting estimates

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

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

2.3 Changes in accounting policies

The Group 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.

In prior years, "Otokar Europe SAS" operations did not materially affect the financial statements of Otokar and accordingly; it had not been subject to consolidation and had been presented at historical cost value under financial investments. Since the magnitude of the operations of Otokar Europe SAS has reached to have material impact on the financial statements of the Company, Otokar has started to consolidate Otokar Europe SAS by the beginning of this year and prepared consolidated financial statements at 31 December 2016.

In prior year, the Group has offset its foreign exchange gains and losses from operating activities under other operating income and expenses if they had the same nature,however, after a change in the accounting policy in 2016, the Group has decided not to offset and decided to present its foreign exchange gains and losses from operating activities under other operating income and expenses as gross amounts. The Group had TL 101,264,349 of other operating income and TL 68,112,790 of other operating expense in its financial statements at 31 December 2015.

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

a. Standards, amendments and interpretations applicable as at 31 December 2016

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 2 standards:

- TFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to TFRS 1)
- TMS 19, 'Employee benefits' regarding discount rates

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment, it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

Amendment to IFRS 10 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016.These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improvepresentation and disclosure in financial reports.

b. Standards, amendments and interpretations effective after 1 January 2017

Amendments to IAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments IAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

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

Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- IFRS 1,' First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
- IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

IFRIC 22,' Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

The Group has assessed the impacts of these changes to their operations and decided to apply as at their effective dates.The Group did not early adopt any of the standards.

2.4 Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires 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 consolidated 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 consolidated financial statements and the significant judgments with the most significant effect on amounts recognized in the consolidated 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 31 December 2016, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
c) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
d) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property,plant and equipment and intangible assets.

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

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

2.5 Summary of significant accounting policies

Group accounting

The consolidated financial statements include the accounts of the parent company, Otokar and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with TFRS. The results of subsidiaries are included or excluded from their effective dates of acquisition or disposal, respectively.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group combines individual income and expenses, assets and liabilities and cash flows of subsidiaries on a line-by-line basis with similar items in the consolidated financial statements. Intercompany transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

Disposal of a subsidiary

If the Group loses control of a subsidiary, it recognizes any investment retained in the former subsidiary at its fair value when control is lost and any difference between the fair value and net book value of investment is accounted for as gain or loss. That fair value shall be regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. Additionally, assets and liabilities that were previously recognized as other comprehensive income attributable to that subsidiary are accounted for as if those were disposed the Group. This may result in a fact that these amounts previously recognized as other comprehensive income may be classified to profit or loss.

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 31 December 2016 and 2015:

	2016		2015	
Subsidiaries	**Direct and indirect ownership (%)**	**Proportion of effective interest (%)**	**Direct and indirect ownership (%)**	**Proportion of effective interest (%)**
Otokar Europe SAS (*)	100.00	100.00	100.00	100.00
Otokar Land Systems LLC (**)	100.00	100.00	-	-

(*) In prior years, "Otokar Europe SAS" operations did not materially affect the financial statements of Otokar and accordingly; it had not been subject to consolidation and had been presented at historical cost value under financial investments. Since the magnitude of the operations of Otokar Europe SAS has reached to have material impact on the financial statements of the Company, Otokar has started to consolidate Otokar Europe SAS by the beginning of this year and prepared consolidated financial statements at 31 December 2016.

(**) Since financial activities of Otokar Land System LLC has not started, the investment was presented under financial investments.

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

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 Group 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.

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

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized on an accrual basis as financial income.

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

Construction contract activities

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

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

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

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

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

Related parties (Continued)

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) In the existence of any instances stated below, the entities shall be considered as related parties to the Company:

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

Inventories

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

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

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

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

Property, plant and equipment

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

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

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

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

Property, plant and equipment (Continued)

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

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

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

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

Intangible assets

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

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

Research and development expenses

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

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

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

existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Research and development expenses (Continued)

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

Investment, research and development incentives

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

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

Income taxes

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

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

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

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

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

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

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

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

Employee benefits

a) Defined benefit plans:

Employment termination benefits

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

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

Foreign currency transactions

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

Provisions

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

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

Contingent liabilities and assets

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

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.

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

Operating leases

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

Warranty expenses

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

Financial instruments

Financial assets

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

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group 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.

Cash and cash equivalents

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

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

Trade receivables

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

A credit risk provision for trade receivables is established if there is objective evidence that the Group 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.

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

Trade receivables (Continued)

Group may enter into factoring agreement for its trade receivables which allows the Group to transfer the credit risk of these receivables and prevents the Group to sale or provide the receivables as collaterel.

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 Group 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 Group 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.

Derivative financial instruments

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

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

Impairments in financial assets

Financial assets 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 Group recognizes a financial asset or financial liability in its balance sheet only when it becomes a party to the contractual provisions of the instrument. The Group 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 Group committed to purchase or sell. The mentioned purchases or sales are ones which require the delivery of the financial assets within the time interval identified with the established practices and regulations in the market.

Foreign currency transactions

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

Earnings per share

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

The companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and share capital inflation adjustments. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Accordingly, the weighted average number of shares used in earnings per share calculation is derived by giving retroactive effect to the issue of such shares.

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

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 Group 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.

Impairment of non-financial assets

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

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

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

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

Borrowing costs

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

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

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.

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

NOTE 3 - SEGMENT REPORTING

The Group does not prepare segment reporting and follows financial statements by one operating unit.

Since the Chief Executive Decision Maker (composed of key management, board members, general manager and assistant general managers) does not monitor cost of sales, operating expenses and financial expenses, the product groups are only monitored based on revenue (Note 19). Thus, segment reporting is not performed.

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Banks		
- demand deposits	11,535,670	15,239
- time deposits	26,059,194	56,506,362
Cheques and notes receivable	918,139	2,119,198
Other	85,349	95,266
Total	**38,598,352**	**58,736,065**

As of 31 December 2016, TL 17,479,194 of the total amount of time deposits amounting to TL 26,059,194 is denominated in foreign currency and the annual effective interest rate is 0.10% and has a maturity of 3 days. The remaining annual effective interest rate of TL 8,580,000 is 8.25% and has a maturity of 3 days.

As of 31 December 2015, TL 27,326,362 of the total time deposits amounting to TL 56,506,362 is denominated in foreign currency and the annual effective interest rate is 0.24% and has a maturity of 4 days. The remaining annual effective interest rate of TL 29,180,000 is 14.05% and has a maturiy of 4 days.

Cheques and notes received consist of cheques and notes which are due as of balance sheet date and were sent to banks for collection.

As of 31 December 2016, the Group has restricted bank deposit amounting to TL 795 (31 December 2015: TL 795).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Land Systems LLC" with paid in capital of AED 50,000 (TL 41,398), established in United Arab Emirates for the purpose of organizing export activities and increasing export sales. Since Otokar Land Systems LLC's operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

NOTE - BORROWINGS

31 December 2016

	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	2 January 2017	-	2,414
			2,414
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TL		12.60-14.65	4,178,278
Denominated in EUR		2.90	491,122
			4,669,400

	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	15 August 2018 - 12 November 2018	12.60 - 14.65	351,249,263
Denominated in EUR	28 September 2018	2.90	74,198,000
			425,447,263

(*) Bearing fixed interest rate.
(**) Weighted average maturity days of long-term borrowings are 632 days.
(***) Interest free loan for the Social Security Instution payments.

31 December 2015	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	4 January 2016	-	375,402
			375,402
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TL		8.09-14.65	105,178,069
Denominated in EUR		2.65	429,290
			105,607,359

	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	14 April 2017- 3 September 2018	11.55-14.65	351,115,051
Denominated in EUR	10 February 2017- 21 September 2017	2.65-2.90	158,180,024
			509,295,075

(*) Bearing fixed interest rate.
(**) Weighted average maturity days of long-term borrowings are 730 days.
(***) Interest free loan for the Social Security Instution payments.

As of 31 December 2016, the Group has not provided any guarantees for the borrowings (31 December 2015: none).

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value assets
31 December 2016:			
Forward transactions	25,397,200	12 January 2017	51,800
Short-term derivative financial instruments	25,397,200		51,800
Total derivative financial instruments	**25,397,200**		**51,800**

	Contract amount	Previous period contract maturity	Fair value assets
31 December 2015:			
Forward transactions	55,435,650	7 January 2016 - 14 January 2016	146,636
Short-term derivative financial instruments	55,435,650		146,636
Total derivative financial instruments	**55,435,650**		**146,636**

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2016	31 December 2015
Trade receivables, net	258,579,445	113,905,306
Notes receivables, net	129,551,413	148,699,225
	388,130,858	**262,604,531**
Less: provision for doubtful receivables	(28,909,565)	(25,056,794)
Short-term trade receivables	**359,221,293**	**237,547,737**
Trade receivables from related parties (Note 27)	29,436,843	106,906,185
Short-term trade receivables	**388,658,136**	**344,453,922**
Long-term trade receivables, net	-	87,065,478
Long-term notes receivable, net	9,173,544	13,230,367
Long-term trade receivables	**9,173,544**	**100,295,845**

As of 31 December 2016, the average maturity of trade receivables is between 60-90 days (excluding notes receivables). (31 December 2015 60-90 days.)

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2016, trade receivables amounting to TL 451,646,689 (31 December 2015: TL 34,728,321) were subject to factoring arrangement. According to this arrangement, the Group has transferred the credit risk in relation to this receivables against cash.

As of 31 December 2016 and 2015, the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 31 December 2016, the total trade receivable from dealers amounting to TL 79,884,163 (31 December 2015: TL 109,952,277), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 134,631,000 (31 December 2015: TL 108,683,872). Group manages the credit risk of remaining balance in the manner described in the Credit Risk section of Note 28 to the consolidated financial statements.

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

31 December 2016	**Trade receivables**
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	218,615
Over 5 years past due	-
Total	**218,615**
Amount secured with guarantees	**218,615**

31 December 2015	**Trade receivables**
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	
1- 5 year past due	187,248
Over 5 years past due	-
Total	**187,248**
Amount secured with guarantees	**187,248**

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

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The movement of the provision for doubtful receivables for the years ended 31 December 2016 and 2015 are as follows:

	2016	**2015**
As of 1 January	25,056,794	22,526,772
Impact of consolidation (*)	916,092	-
Collection	(549,788)	(394,696)
Currency translation difference	153,460	-
Increase during the period	3,333,007	2,924,718
As of 31 December	**28,909,565**	**25,056,794**

(*) Please see Note 2 for details.

Trade payables

	31 December 2016	**31 December 2015**
Trade payables, net	389,798,869	138,397,815
Notes payables, net	329,400	252,300
Short-term other trade payables	**390,128,269**	**138,650,115**
Trade payables to related parties (Note 27)	11,016,714	27,169,350
Short-term trade payables	**401,144,983**	**165,819,465**

As of 31 December 2016, average payment term for trade payables is 45-60 days (31 December 2015: 45-60 days).

As of 31 December 2016 and 2015, the fair values of trade payables approximate to their carrying values due to short term maturity of those payables.

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other short-term receivables

	31 December 2016	**31 December 2015**
Deposits and guarantees given	8,305	-
Due from personnel	11,283	2,090
Total	**19,588**	**2,090**

Other long-term receivables

	31 December 2016	**31 December 2015**
Deposits and guarantees given	234,084	65,853
Total	**234,084**	**65,853**

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

NOTE 9 - OTHER RECEIVABLES AND PAYABLES (Continued)

Other short-term payables

	31 December 2016	31 December 2015
Other miscellaneous payables	37,958,298	36,228,439
Total	**37,958,298**	**36,228,439**

As explained in Note 15, TL 36,168,636 (31 December 2015: TL 31,707,241) of other miscellaneous payables was collected but not credited to statement of profit or loss, since the lawsuit in relation to deductable corporate tax from R&D costs has not been finalised.

NOTE 10 - INVENTORIES

	31 December 2016	31 December 2015
Raw material	182,574,412	127,778,773
Semi-finished goods	73,211,994	14,932,656
Finished goods	116,973,388	148,982,557
Merchandise goods	67,684,094	58,112,743
Goods in transit	54,132,774	78,964,178
Impairment for inventories (*)	(706,306)	(795,363)
Total	**493,870,356**	**427,975,544**

(*) TL 100,254 of impairment is related to finished goods (31 December 2015: TL 118,113) and TL 606,052 is related to merchandises (31 December 2015: TL 677,250). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2016 and 2015 are as follows:

	2016	2015
1 January	(795,363)	(1,494,757)
Reversal of provision (Note 21)	89,057	699,394
31 December	**(706,306)**	**(795,363)**

NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts is TL 245,830,180 as of 31 December 2016 (31 December 2015: TL 188,278,141) after offsetting with short-term advances received.

As of 31 December 2016, the short-term advances received by the Group related with ongoing projects which amounts to TL 32,406,735 was included under deferred revenues in the consolidated financial statements (31 December 2015: TL 79,705,827).

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the years ended 31 December 2016 and 2015 are as follows:

	1 January 2016	Consolidation impact (*)	Additions	Currency translation difference	Disposals	Transfers	31 December 2016
Cost:							
Land	37,456,746	-	-	-	-	-	37,456,746
Land improvements	11,952,934	-	7,102	-	-	10,274	11,970,310
Buildings	60,539,783	-	-	-	-	93,543	60,633,326
Machinery and equipment	99,172,937	504,742	5,146,553	84,553	-	1,267,005	106,175,790
Motor vehicles	8,427,782	-	2,400,830	-	(1,215,604)	-	9,613,008
Furniture and fixtures	28,453,405	147,768	4,608,323	24,754	-	751,871	33,986,121
Leasehold improvements	2,099,062	-	13,644	-	(185,970)	188,966	2,115,702
Construction in process	964,394	-	2,048,680	-	-	(2,317,149)	695,925
	249,067,043	**652,510**	**14,225,132**	**109,307**	**(1,401,574)**	**(5,490)**	**262,646,928**
Accumulated depreciation:							
Land improvements	6,825,653	-	653,671	-	-	-	7,479,324
Buildings	34,712,739	-	2,788,756	-	-	-	37,501,495
Machinery and equipment	81,444,145	192,914	4,906,402	32,885	-	-	86,576,346
Motor vehicles	5,147,507	-	706,250	-	(221,198)	-	5,632,559
Furniture and fixtures	15,854,686	83,808	2,885,687	14,399	-	-	18,838,580
Leasehold improvements	1,324,974	-	303,490	-	(111,725)	-	1,516,739
	145,309,704	**276,722**	**12,244,256**	**47,284**	**(332,923)**	**-**	**157,545,043**
Net book value	**103,757,339**						**105,101,885**

	1 January 2015	Consolidation impact(*)	Additions	Currency translation difference	Disposals	Transfers	31 December 2015
Cost:							
Land	37,456,746	-	-	-	-	-	37,456,746
Land improvements	11,621,866	-	-	-	-	331,068	11,952,934
Buildings	60,170,668	-	-	-	-	369,115	60,539,783
Machinery and equipment	108,389,066	-	2,106,806	-	(11,787,190)	464,255	99,172,937
Motor vehicles	9,169,102	-	314,541	-	(1,055,861)	-	8,427,782
Furniture and fixtures	34,568,907	-	2,001,683	-	(8,385,743)	268,558	28,453,405
Leasehold improvements	2,841,765	-	81,659	-	(824,362)	-	2,099,062
Construction in process	2,355,130	-	1,845,343	-	-	(3,236,079)	964,394
	266,573,250	**-**	**6,350,032**	**-**	**(22,053,156)**	**(1,803,083)**	**249,067,043**
Accumulated depreciation:							
Land improvements	6,176,947	-	648,706	-	-	-	6,825,653
Buildings	31,891,231	-	2,821,508	-	-	-	34,712,739
Machinery and equipment	87,805,628	-	5,419,005	-	(11,780,488)	-	81,444,145
Motor vehicles	4,737,483	-	717,615	-	(307,591)	-	5,147,507
Furniture and fixtures	21,866,594	-	2,359,706	-	(8,371,614)	-	15,854,686
Leasehold improvements	1,835,312	-	314,024	-	(824,362)	-	1,324,974
	154,313,195	**-**	**12,280,564**	**-**	**(21,284,055)**	**-**	**145,309,704**
Net book value	**112,260,055**						**103,757,339**

(*) Please see Note 2 for details.

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of depreciation and amortization expenses of property, plant and equipment and intangible assets for the years ended at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Research and development expenses	34,796,657	34,230,530
Cost of goods sold	3,084,543	3,009,620
Costs related to uncompleted contracts	5,200,412	5,040,622
Development projects in process	1,906,371	1,989,862
Depreciation on outstanding inventories	915,766	1,085,521
General administrative expenses	1,763,229	1,692,488
Selling and marketing expenses	1,478,973	1,214,169
Currency translation differences	47,284	-
Total	**49,193,235**	**48,262,812**

NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2016 and 2015 are as follows:

	1 January 2016	Additions	Currency tranlastion differences	Disposals	Tranfers	31 December 2016
Cost:						
Other intangible assets	16,231,830	1,790,919	-	-	5,490	18,028,239
Development costs	242,619,897	-	-	-	54,763,309	297,383,206
Developments projects in progress	31,224,033	61,617,921	-	-	(54,763,309)	38,078,645
	290,075,760	**63,408,840**	**-**	**-**	**5,490**	**353,490,090**
Accumulated amortization:						
Other intangible assets	11,973,214	2,105,039	-	-	-	14,078,253
Development costs	122,683,468	34,796,656	-	-	-	157,480,124
	134,656,682	**36,901,695**	**-**	**-**	**-**	**171,558,377**
Net book value	**155,419,078**		**-**			**181,931,713**

The Group has capitalised TL 3,323,878 (31 December 2015: -) of its finance expense in relation to qualifying assets in 2016.

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

NOTE 13 - INTANGIBLE ASSETS (Continued)

	1 January 2015	Additions	Currency translation differences	Disposals	Transfers	31 December 2015
Cost:						
Other intangible assets	13,530,710	898,037	-	-	1,803,083	16,231,830
Development costs	186,078,994	-	-	(819,200)	57,360,103	242,619,897
Development projects in progress	40,525,892	48,058,244	-	-	(57,360,103)	31,224,033
	240,135,596	**48,956,281**	**-**	**(819,200)**	**1,803,083**	**290,075,760**
Accumulated amortization:						
Other intangible assets	10,221,496	1,751,718	-	-	-	11,973,214
Development costs	88,466,591	34,230,530	-	(13,653)	-	122,683,468
	98,688,087	**35,982,248**	**-**	**(13,653)**	**-**	**134,656,682**
Net book value	**141,447,509**					**155,419,078**

NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2016	31 December 2015
Short-term	2,155,912	2,056,306
Long-term	3,381,725	5,570,470
Total	**5,537,637**	**7,626,776**

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

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2016	31 December 2015
Provision for other costs	340,870,528	233,120,100
Warranty provision	31,084,815	26,397,052
Shor-term provisions for employee benefits	8,490,684	6,651,542
Foundation employer's share of social security premium	-	2,925,000
Provision for license costs	1,091,241	1,316,079
Other	5,606,724	5,890,382
Total	**387,143,992**	**276,300,155**

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

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

Long-term provisions

	31 December 2016	31 December 2015
Warranty provision	10,300,186	9,433,926
Total	**10,300,186**	**9,433,926**

Provision for other costs

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

	2016	2015
1 January	233,120,100	153,473,113
Additional provision, net	65,407,045	58,423,534
Foreign currency valuation	42,343,383	21,223,453
31 December	**340,870,528**	**233,120,100**

Warranty provision

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

	2016	2015
1 January	35,830,978	22,615,088
Additional provision (Note 21)	33,766,893	53,642,174
Payments	(28,212,870)	(40,426,284)
31 December	**41,385,001**	**35,830,978**

Provision for license costs

The movements of provision for license costs are as follows:

	2016	2015
1 January	1,316,079	1,264,726
Additional provision	(1,437,328)	1,513,663
Realised	1,212,490	(1,462,310)
31 December	**1,091,241**	**1,316,079**

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

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

Commitments and contingencies

As of 31 December 2016 and 2015, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2016	31 December 2015
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,614,605,585	1,226,251,723
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	**1,614,605,585**	**1,226,251,723**

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

	31 December 2016		31 December 2015	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	285,635,242	1,005,207,542	293,815,364	854,297,554
EUR	112,795,758	418,460,981	54,315,986	172,594,478
TL	189,755,411	189,755,411	199,359,691	199,359,691
GBP	273,600	1,181,651	-	-
Total		**1,614,605,585**		**1,226,251,723**

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

	31 December 2016	31 December 2015
Guarantee letters given		
Under secretariat of Ministry of Defense	1,092,184,399	751,262,190
Other	522,421,186	474,989,533
Total	**1,614,605,585**	**1,226,251,723**

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

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

Guarantee letters

a) Guarantees given as of 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Bank letters of guarantee (*)	1,614,605,585	1,226,251,723
	1,614,605,585	**1,226,251,723**

(*) Bank letters of guarantee amounting to TL875,732,621 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2015: TL723,539,489).

b) Guarantees received as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	**31 December 2015**
Bank letters of guarantee (**)	551,490,428	474,011,532
Guarantee notes	15,898,053	17,653,397
Mortgages received	20,000	582,000
Total	**567,408,481**	**492,246,929**

(**) Bank letters of guarantee amounting to TL317,195,187 are obtained from the sub-contractors for Altay Project (31 December 2015: TL236,503,977).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2010 was concluded in favor of the Group and TL2,923,627 was refunded to the Group. The same case for 2011-2012-2013-2014 is still in progress at appeal phase.
Total amount of cases at the appeal phase relating to years 2011, 2012, 2013, 2014 amount to TL36,168,636, the amount of the legal case for 2015 is TL4,556,631.

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

NOTE 16 - EMPLOYEE BENEFITS

	31 December 2016	31 December 2015
Provision for employement termination benefits	28,087,775	22,321,490
Provision for unused vacation	8,490,684	6,651,542
Total	**36,578,459**	**28,973,032**

Employment termination benefits

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

Under the Turkish Labour Law, the Group 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 4,287 for each year of service as of 31 December 2016 (31 December 2015 - TL 3,828).

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 Group arising from the retirement of the employees.

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

	31 December 2016	31 December 2015
Net discount rate (%)	4.50	4.60
Turnover rate to estimate the probability of retirement (%)	97.50	97.60

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

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

	2016	2015
1 January	22,321,490	20,969,191
Interest expense	2,020,095	1,897,712
Charge for the period	5,445,004	4,728,224
Remeasurement differences	1,408,203	(1,756,965)
Payments	(3,107,017)	(3,516,672)
31 December	**28,087,775**	**22,321,490**

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

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2016	2015
1 January	6,651,542	5,381,838
Charge for the period net (Note 21)	1,839,142	1,269,704
31 December	**8,490,684**	**6,651,542**

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

a) Prepaid expenses:

	31 December 2016	31 December 2015
Advances given	171,436,186	119,060,514
Prepaid expenses	5,329,543	3,631,034
Total	**176,765,729**	**122,691,548**

The advances given consist mainly of the amounts given for raw material purchases.

b) Other current assets:

	31 December 2016	31 December 2015
Value added tax receivables	105,448,252	62,891,217
Other	689,241	2,795,945
Total	**106,137,493**	**65,687,162**

c) Deferred revenues:

Deferred revenues - short term	31 December 2016	31 December 2015
Deferred maintenance revenues (*)	25,301,518	21,830,112
Advances received	175,322,632	154,462,613
Total	**200,624,150**	**176,292,725**

Deferred revenues - long term	31 December 2016	31 December 2015
Deferred maintenance revenues (*)	7,753,691	28,312,416
Total	**7,753,691**	**28,312,416**

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

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

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

d) Employee benefits obligation:

	31 December 2016	31 December 2015
Payables to employees	10,364,949	9,776,832
Social security payables	6,323,843	4,060,123
Taxes and funds payable	4,750,882	4,300,629
Total	**21,439,674**	**18,137,584**

e) Other current liabilities:

	31 December 2016	31 December 2015
Tax and fund payable	1,402,659	915,723
Deferred speacial consumption tax	9,273,326	638,813
Other	524,102	424,033
Total	**11,200,087**	**1,978,569**

NOTE 18 - EQUITY

Share Capital

As of 31 December 2016 and 2015, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2016		31 December 2015	
	TL	(%)	TL	(%)
Koç Holding A.Ş.	10,722,750	44.68	10,722,750	44.68
Ünver Holding A.Ş.	5,954,944	24.81	5,954,944	24.81
Other	7,322,306	30.51	7,322,306	30.51
Total	**24,000,000**	**100.00**	**24,000,000**	**100.00**
Inflation adjustment on equity items	52,743,030		52,743,030	
Total	**76,743,030**		**76,743,030**	

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

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

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

NOTE 18 - EQUITY (Continued)

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

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

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

As of 31 December 2016, in the financial statements of the Group 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 TL69,725,866 (31 December 2015 - TL79,506,151) and TL46,131,822 (31 December 2015 – TL46,011,054), respectively. Current year net income of the Company in statutory books is TL62,303,417 (31 December 2015 - TL47,807,290), other reserves to be distributed as dividend (without being subject to additional taxation) is TL90,495,833 (31 December 2015 – TL131,308,884). In addition, in statutory books there is TL16,224,790 of inflation adjustment and TL19,777,790 of other capital reserves that are subject to taxation if they are distributed.

After deduction of first legal reserves, current year net profit in statutory books is TL62,303,417 (31 December 2015 - TL47,807,290). As of report date, there is no decision of dividend distribution related to 2016.

In accordance with the Communiqué, as of 31 December 2016 and 2015, the details of equity, based on which the dividend will be distributed is as follows:

	31 December 2016	31 December 2015
Paid-in share capital	24,000,000	24,000,000
Inflation adjustment on equity items	52,743,030	52,743,030
Restricted reserves	54,014,610	46,838,147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(4,985,845)	(3,859,283)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	1,328,609	-
Retained earnings		
- Extraordinary reserves	35,181,739	35,060,971
- Inflation adjustments on legal reserves	10,950,083	10,950,083
Net income for the year	69,725,866	79,506,151
Total	**242,958,092**	**245,239,099**

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

NOTE 18 - EQUITY (Continued)

As of December 31, 2016 and 2015, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

	31 December 2016		
	Historical value	**Inflation adjustments on equity items**	**Restated value**
Share capital	24,000,000	52,743,030	76,743,030
Legal reserves	54,014,610	10,950,083	64,964,693
Total	**78,014,610**	**63,693,113**	**141,707,723**

	31 December 2015		
	Historical value	**Inflation adjustments on equity items**	**Restated value**
Share capital	24,000,000	52,743,030	76,743,030
Legal reserves	46,838,147	10,950,083	57,788,230
Total	**70,838,147**	**63,693,113**	**134,531,260**

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

	31 December 2016	**31 December 2015**
Legal reserves	54,014,610	46,838,147
Extraordinary reserves	90,495,833	131,308,884
Total	**144,510,443**	**178,147,031**
Dividends distributed during the year based on previous year's net income per statutory financial statements	72,000,000	80,000,000
Dividend paid per share (piaster)	0.300	0.333

The Company's share capital is fully paid, and consists of 24,000,000,000 shares with piaster 0.1 par value each.

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

NOTE 19 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 December 2016	1 January - 31 December 2015
Domestic Sales	1,197,376,125	1,023,161,185
Export Sales	446,885,490	419,631,436
Gross Sales	**1,644,261,615**	**1,442,792,621**
Less: sales discounts and returns	(9,746,917)	(8,824,734)
Net sales	**1,634,514,698**	**1,433,967,887**

Sales of the Group for the years ended 31 December 2016 and 2015 in terms of the products are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Commercial vehicle	639,775,622	648,616,536
Armored vehicle	676,159,002	403,763,175
Other (*)	318,580,074	381,588,176
	1,634,514,698	**1,433,967,887**

(*) TL158,226,424 of this amount is related to revenues of uncompleted contracts (2015: TL191,121,291) the remaining balance amounting to TL160,353,650 is consisted of spare parts, maintenance & repairment and other revenues (2015: TL190,466,885).

Cost of sales

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of finished goods sold	(1,155,427,671)	(969,683,214)
Cost of merchandise goods sold	(69,241,750)	(93,343,247)
	(1,224,669,421)	**(1,063,026,461)**

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

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

	1 January - 31 December 2016	1 January - 31 December 2015
Marketing expenses	(189,512,567)	(179,773,869)
General administrative expenses	(63,132,410)	(49,337,559)
Research and development expenses	(36,176,104)	(35,321,089)
	(288,821,081)	**(264,432,517)**

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of raw material and consumption goods	1,026,749,024	937,566,869
Change in finished and semi-finished goods	(26,270,057)	(113,973,324)
Cost of merchandises sold	69,241,750	93,343,247
Depreciation and amortization expense	46,323,814	45,187,429
Personnel expenses	188,584,734	157,888,134
Operational expenses	29,939,826	33,690,164
Administrative expenses	50,857,431	34,197,342
Warranty reserve expense (Note 15)	33,766,893	53,642,174
Exhibition and fair expenses	12,237,920	6,697,611
Transportation,distribution and storage expenses	18,359,293	15,107,913
Advertisement and promotion expenses	3,322,838	2,306,171
Provisions of impairment for inventories (Note 10)	(89,057)	(699,394)
Other expenses	60,466,093	62,504,642
Total	**1,513,490,502**	**1,327,458,978**

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

NOTE 21 - EXPENSES BY NATURE (Continued)

The breakdown of personnel expenses is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
With respect to the account:		
Cost of sales and inventories on hand	93,905,659	84,056,162
Costs related to uncompleted contracts	25,668,790	23,194,843
Capitalized development expenditures	27,761,287	22,875,600
General administrative expenses	24,631,495	20,512,531
Marketing expenses	42,999,344	29,034,039
Research and development expenses	1,379,446	1,090,559
	216,346,021	**180,763,734**

	1 January - 31 December 2016	1 January - 31 December 2015
By nature:		
Wages and salaries	160,166,090	132,802,499
Social security premiums	27,812,525	23,980,763
Other social benefits	19,063,165	16,084,832
Provision for employment termination benefits	7,465,099	6,625,936
Provision for vacation pay liability	1,839,142	1,269,704
	216,346,021	**180,763,734**

NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

Other operating income	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange gains on operating activities	390,893,948	159,319,445
Gain on forward transactions	7,034,743	38,526,757
Revenue from charge of due date receivables	9,778,451	14,033,204
Gain on incentives	2,164,055	2,033,845
Other	13,037,782	11,730,388
Total	**422,908,979**	**225,643,639**

Other operating expenses	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange loss on operating activities	(364,766,726)	(156,766,696)
Loss on forward transactions	(11,190,008)	(32,718,137)
Expense on provision for uncollectible receivables(Note 8)	(3,333,007)	(2,924,718)
Other	-	(82,529)
Total	**(379,289,741)**	**(192,492,080)**

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

NOTE 23 - FINANCIAL INCOME

	1 January – 31 December 2016	1 January – 31 December 2015
Interest income from time deposits	527,484	768,391
Foreign exchange gains on deposits	6,546,742	4,620,326
Foreign exchange gains on bank borrowings	8,442,800	7,002,085
Total	**15,517,026**	**12,390,802**

NOTE 24 - FINANCIAL EXPENSES

	1 January – 31 December 2016	1 January – 31 December 2015
Interest expense on bank borrowings	(77,758,844)	(40,417,977)
Foreign exchange losses on deposits	(5,980,793)	(8,018,503)
Foreign exchange losses on bank borrowings	(28,250,090)	(17,254,290)
Other	(176,997)	-
Total	**(112,166,724)**	**(65,690,770)**

NOTE 25 - TAX ASSETS AND LIABILITIES

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

In Turkey, the corporation tax rate is 20% (2015 - 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.

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

NOTE 25 - 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 2015 and 2014.

As a result of its research and development expenditures made in 2016 amounting to TL48,655,306 (2015 – TL40,641,115). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

As of 31 December 2016 and 2015, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2016	**31 December 2015**
Income tax payable	572,388	6,844,679
Less-prepaid tax (-)	(572,388)	(4,750,985)
Income tax payable	**-**	**2,093,694**

The breakdown of total tax expense for the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Current tax charge	1,387,431	(6,663,642)
Deferred tax income:		
charged to profit for the period	258,072	(1,670,510)
charged to other comprehensive income	281,641	(351,393)
Total	**1,927,144**	**(8,685,545)**

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

	1 January - 31 December 2016	**1 January - 31 December 2015**
Profit before tax	**68,080,363**	**87,840,303**
Income tax charge at effective tax rate 20%	(13,616,073)	(17,568,061)
Effect of exemptions and incentives	9,731,061	8,128,223
Other differences	5,812,156	754,293
Total	**1,927,144**	**(8,685,545)**

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2016 and 2015, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative Temporary differenes		Deferred tax assets / (liability)	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
R&D expenses	66,991,441	-	13,398,288	-
Property, plant and equipment	(10,263,439)	(10,992,437)	1,428,607	1,282,807
Intangible assets	(44,359,696)	(26,282,311)	(8,871,939)	(5,256,462)
Deferred financial expense	(1,277,874)	(900,574)	(255,575)	(180,115)
Inventories	710,495	805,990	142,099	161,198
Warranty provision	31,084,815	35,830,978	6,216,963	7,166,196
Provision for employment termination benefits	28,087,775	22,321,490	5,617,555	4,464,298
Deferred financial income	3,290,944	7,933,694	658,189	1,586,739
Other provisions	13,917,097	14,808,853	2,783,420	2,961,770
Deferred maintenance income	33,055,209	50,142,528	6,611,042	10,028,506
Due from customers on contract works	50,621,151	69,655,901	10,124,230	13,931,180
Other	2,525	5,837,770	505	1,167,554
Deferred tax assets, net			**37,853,384**	**37,313,671**

The movement of deferred tax asset for the years ended 31 December 2016 and 2015 are as follows:

	2016	**2015**
1 January	37,313,671	39,335,574
Deferred tax income:		
charged to profit for the period	258,072	(1,670,510)
charged to other comprehensive income	281,641	(351,393)
31 December	**37,853,384**	**37,313,671**

NOTE 26 - EARNINGS PER SHARE

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

Companies can increase their share capital by making a pro rata distribution of shares to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly.

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

	31 December 2016	**31 December 2015**
Net income attributable to shareholders (TL)	69,725,866	79,506,151
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.291	0.331

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

NOTE 27 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 December 2016 and 2015:

Due from related parties	**31 December 2016**	**31 December 2015**
Ram Dış Ticaret A.Ş. (1) (*)	29,334,751	99,343,743
Ford Otosan A.Ş. (1), (2)	67,172	390,673
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	34,920	413,262
Otokar Europe SAS (3)	-	6,742,250
Other (1)	-	16,257
Total	**29,436,843**	**106,906,185**

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

Due to related parties	**31 December 2016**	**31 December 2015**
Koç Holding A.Ş. (2)	4,609,412	5,992,481
Zer Merkezi Hizmetler A.Ş. (1)	1,965,321	3,244,001
Ram Dış Ticaret A.Ş. (1)	1,245,014	14,026,345
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	779,784	202,101
Opet Fuchs Madeni Yağ A.Ş. (1)	613,942	398,558
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	435,594	492,530
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	408,519	269,119
Setur Servis Turistik A.Ş. (1)	337,098	1,029,066
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	255,555	315,837
Other (1)	366,475	1,199,312
Total	**11,016,714**	**27,169,350**

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

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

ii) Major sales and purchase transactions with related parties are as follows:

Product sales and service revenue	1 January – 31 December 2016	1 January – 31 December 2015
Ram Dış Ticaret A.Ş. (1) (*)	169,278,344	336,302,787
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	316,330	1,565,239
Ford Otosan A.Ş. (1), (2)	154,936	1,563
Aygaz A.Ş. (1)	2,668	600,845
Otokar Europe SAS (3)	-	14,129,382
Other (1)	2,910	589
Total	**169,755,188**	**352,600,405**

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

Purchase of property, plant and equipment	1 January – 31 December 2016	1 January – 31 December 2015
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	2,670,105	1,029,492
Zer Merkezi Hizmetler A.Ş. (1)	330,725	240,788
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	59,864	161,901
Arçelik A.Ş. (1)	38,905	13,360
Setur Servis Turistik A.Ş. (1)	31,230	18,878
Koçtaş Yapı Marketleri A.Ş. (1)	3,550	6,680
Other (1)	820	
Total	**3,135,199**	**1,471,099**

Inventories purchased	1 January – 31 December 2016	1 January – 31 December 2015
Zer Merkezi Hizmetler A.Ş. (1)	20,853,315	19,356,732
Ram Dış Ticaret A.Ş. (1)	2,314,468	6,191,802
Opet Fuchs Madeni Yağ A.Ş. (1)	2,330,293	2,438,783
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	2,258,261	2,451,134
Opet Petrolcülük A.Ş. (1)	2,025,660	1,783,556
Ford Otosan A.Ş. (1), (2)	118,991	4,010
Other (1)	156,366	60,452
Total	**30,057,354**	**32,286,469**

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

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	**1 January – 31 December 2016**	**1 January – 31 December 2015**
Ram Dış Ticaret A.Ş. (1)	27,265,973	22,772,787
Koç Holding A.Ş. (2) (*)	13,274,774	8,077,173
Otokar Europe SAS (3)	-	5,997,962
Setur Servis Turistik A.Ş. (1)	6,454,662	5,680,190
Eltek Elektrik Enerji İth. İhr.Top.Tic. A.Ş. (1)	4,575,778	5,425,587
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	2,989,714	1,323,322
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	2,830,763	2,193,307
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	2,034,589	2,821,729
Other (1)	933,541	1,159,664
Total	**60,359,794**	**55,451,721**

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

(**) It includes paid and accrued premium as of 31 December 2016 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	**31 December 2016**	**31 December 2015**
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	13,998	2,931
- Time deposits	20,761,457	33,072,560
Total	**20,775,455**	**33,075,491**

Checks and notes in collection	**31 December 2016**	**31 December 2015**
Yapı ve Kredi Bankası A.Ş. (1)	6,977,202	25,716,139
Total	**6,977,202**	**25,716,139**

Borrowings	**31 December 2016**	**31 December 2015**
Yapı ve Kredi Bankası A.Ş. (1)	-	40,176,227
Total	**-**	**40,176,227**

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

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

NOT 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2016 and 2015, other income and expense with related parties:

	1 January – 31 December 2016	1 January – 31 December 2015
Exchange gain from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	6,585,777	9,539,639
Otokar Europe SAS (3)	-	396,073
Other (1)	233,565	63,976
Total	**6,819,342**	**9,999,688**

	1 January – 31 December 2016	1 January – 31 December 2015
Exchange loss from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	5,358,228	23,994,845
Yapı Kredi Faktoring A.Ş. (1)	5,668,097	-
Otokar Europe SAS (3)	-	202,801
Other (1)	177,545	99,961
Total	**11,203,870**	**24,297,607**

For the years ended 31 December 2016 and 2016, financial income and expense with related parties:

Interest income	1 January – 31 December 2016	1 January – 31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	135,901	62,271
Total	**135,901**	**62,271**

Interest expense	1 January – 31 December 2016	1 January – 31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	4,784,316	6,118,370
Total	**4,784,316**	**6,118,370**

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

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2016 and 2015, financial income and expense with related parties:

Foreign exchange gains	1 January – 31 December 2016	1 January – 31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	1,975,523	3,282,564
Total	**1,975,523**	**3,282,564**

Foreign exchange loss	1 January – 31 December 2016	1 January – 31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	2,967,635	5,167,790
Total	**2,967,635**	**5,167,790**

(1) Related parties of parent company

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the year ended 31 December 2016 is amounted to TL 12,458,669 (31 December 2015: TL 10,840,763). Executives are composed of board of directors members, general manager and assistants of general manager.

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

The Group 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 Group'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 Group.

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 Group mainly arises from trade receivables. The Group 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 Group 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 Group 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(Note8).

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

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

	Receivables			
31 December 2016	**Trade receivables**	**Other**	**Bank deposits**	**Derivative instruments**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	**397,831,680**	**253,672**	**37,594,864**	**-**
- Maximum risk secured by guarantee (2)	**(189,880,986)**	**-**	**-**	**-**
A. Net book value of financial assets neither overdue nor impaired	**394,757,970**	**253,672**	**37,594,864**	**-**
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	**218,615**	**-**	**-**	**-**
D. Net book value of impaired assets	**2,855,095**	**-**	**-**	**-**
- Overdue (gross book value)	**31,764,661**	**-**	**-**	**-**
- Impairment (-) (Note 8)	**(28,909,565)**	**-**	**-**	**-**
- Net value under guarantee	**1,169,759**	**-**	**-**	**-**
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

	Receivables			
31 December 2015	**Trade receivables**	**Other**	**Bank deposits**	**Derivative instruments**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	**444,749,767**	**67,943**	**56,521,601**	**-**
- Maximum risk secured by guarantee (2)	**(203,683,654)**	**-**	**-**	**-**
A. Net book value of financial assets neither overdue nor impaired	**441,619,979**	**67,943**	**56,521,601**	**-**
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	**-**	**-**	**-**	**-**
C. Net book value of assets overdue but not impaired	**187,248**	**-**	**-**	**-**
D. Net book value of impaired assets	**2,942,540**	**-**	**-**	**-**
- Overdue (gross book value)	**27,999,334**	**-**	**-**	**-**
- Impairment (-) (Note 8)	**(25,056,794)**	**-**	**-**	**-**
- Net value under guarantee	**1,225,992**	**-**	**-**	**-**
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

(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.

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

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

Liquidity risk

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

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

As of 31 December 2016 and 2015, maturities of gross trade payables and financial liabilities are as follows:

31 December 2016

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	**430,119,077**	**517,990,565**	**14,966,557**	**38,863,696**	**464,160,312**	**-**
Trade payables	**401,144,983**	**402,431,103**	**402,101,703**	**329,400**	**-**	**-**

Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	**37,958,298**	**46,588,486**	**46,588,486**	**-**	**-**	**-**
Other short-term liabilities	**11,200,087**	**11,200,087**	**11,200,087**	**-**	**-**	**-**

Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	**51,800**	**51,800**	**51,800**	**-**	**-**	**-**
Derivative cash inflows	**25,449,000**	**25,449,000**	**25,449,000**	**-**	**-**	**-**
Derivative cash outflows	**(25,397,200)**	**(25,397,200)**	**(25,397,200)**	**-**	**-**	**-**

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

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

31 December 2015

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	**615,277,836**	**711,794,230**	**31,898,813**	**118,599,753**	**561,295,664**	**-**
Trade payables	**165,819,465**	**166,726,933**	**166,474,633**	**252,300**	**-**	**-**

Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	**36,228,439**	**36,228,439**	**36,228,439**	**-**	**-**	**-**
Other short-term liabilities	**1,978,569**	**1,978,569**	**1,978,569**	**-**	**-**	**-**

Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	**146,636**	**146,636**	**146,636**	**-**	**-**	**-**
Derivative cash inflows	**55,582,286**	**55,582,286**	**55,582,286**	**-**	**-**	**-**
Derivative cash outflows	**(55,435,650)**	**(55,435,650)**	**(55,435,650)**	**-**	**-**	**-**

Market risk

a) Foreign currency risk and related sensitivity analysis

The Group 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 Group 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.

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

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

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

31 December 2016		**TL equivalent (functional currency)**	**USD**	**EUR**	**GBP**
1.	Trade receivables	470,903,503	76,164,894	53,968,323	612,870
2a.	Monetary financial assets (including cash, bank accounts)	189,090,390	39,445,051	13,551,653	21
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	1,533	304	125	-
4.	**Current assets (1+2+3)**	**659,995,426**	**115,610,249**	**67,520,101**	**612,891**
5.	Trade receivables	7,558,432	-	2,037,368	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	73,919	2,725	17,340	-
8.	**Non-current assets (5+6+7)**	**7,632,351**	**2,725**	**2,054,708**	**-**
9.	**Total assets((4+8)**	**667,627,777**	**115,612,974**	**69,574,809**	**612,891**
10.	Trade payables	(25,304,828)	(2,840,608)	(4,125,814)	(417)
11.	Financial liabilities	(491,122)	-	(132,381)	-
12a.	Monetary other liabilities	(500,457,967)	(108,505,350)	(31,937,025)	(28,426)
12b.	Non-monetary other liabilities	(25,301,518)	-	(6,820,000)	-
-13.	**Current liabilities (10+11+12)**	**(551,555,435)**	**(111,345,958)**	**(43,015,220)**	**(28,843)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(74,198,000)	-	(20,000,000)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(7,753,691)	-	(2,090,000)	-
-17.	**Non-current liabilities (14+15+16)**	**(81,951,691)**	**-**	**(22,090,000)**	**-**
18.	**Total liabilities (13+17)**	**(633,507,126)**	**(111,345,958)**	**(65,105,220)**	**(28,843)**
19.	Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(25,397,200)	(3,000,000)	(4,000,000)	-
19a.	Hedged total assets amount	-	-	-	-
19b.	Hedged total liabilities amount	(25,397,200)	(3,000,000)	(4,000,000)	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**8,723,451**	**1,267,016**	**469,589**	**584,048**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**67,100,408**	**4,263,987**	**13,362,124**	**584,048**
22.	Total fair value of financial instruments used for foreign currency hedging	(25,397,200)	(3,000,000)	(4,000,000)	-
23.	Export	441,813,417	49,321,829	84,591,102	1,727,742
24.	Import	568,711,247	88,220,788	86,295,062	3,755,102

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

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

31 December 2015		**TL equivalent (functional currency)**	**USD**	**EUR**	**GBP**
1.	Trade receivables	216,351,765	30,436,177	40,200,851	26,347
2a.	Monetary financial assets (including cash, bank accounts)	145,541,867	47,570,674	2,273,765	60
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	1,281	304	125	-
4.	**Current assets (1+2+3)**	**361,894,913**	**78,007,155**	**42,474,741**	**26,407**
5.	Trade receivables	99,220,390	-	31,224,946	-
6a.	Monetary financial assets	188,278,141	64,753,797	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	55,100	-	17,340	-
8.	**Non-current assets (5+6+7)**	**287,553,631**	**64,753,797**	**31,242,286**	**-**
9.	**Total assets((4+8)**	**649,448,544**	**142,760,952**	**73,717,027**	**26,407**
10.	Trade payables	(68,719,333)	(16,392,611)	(4,554,888)	(1,530,580)
11.	Financial liabilities	-	-	-	-
12a.	Monetary other liabilities	(335,308,086)	(114,658,757)	(567,734)	(28,426)
12b.	Non-monetary other liabilities	(21,830,112)	-	(6,870,000)	-
13.	**Current liabilities (10+11+12)**	**(425,857,531)**	**(131,051,368)**	**(11,992,622)**	**(1,559,006)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(158,609,314)	-	(49,914,814)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(28,312,416)	-	(8,910,000)	-
17.	**Non-current liabilities (14+15+16)**	**(186,921,730)**	**-**	**(58,824,814)**	**-**
18.	**Total liabilities (13+17)**	**(612,779,261)**	**(131,051,368)**	**(70,817,436)**	**(1,559,006)**
19.	Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(31,351,414)	(9,176,250)	(3,500,000)	1,500,000
19a.	Hedged total assets amount	17,568,986	3,823,750	-	1,500,000
19b.	Hedged total liabilities amount	(48,920,400)	(13,000,000)	(3,500,000)	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**5,317,869**	**2,533,334**	**(600,409)**	**(32,599)**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**86,755,430**	**11,709,280**	**18,662,126**	**(1,532,599)**
22.	Total fair value of financial instruments used for foreign currency hedging	(31,351,415)	(9,176,250)	(3,500,000)	1,500,000
23.	Export	419,042,792	83,211,052	59,107,422	64,966
24.	Import	476,994,960	89,522,971	66,401,085	6,911,697

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

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 31 December 2016 and 2015:

31 December 2016	**Profit before tax** **Appreciation of foreign currency**	**Profit before tax** **Depreciation of foreign currency**
In case 10% appreciation of USD against TL:		
1- USD net asset/liability	**445,889**	**(445,889)**
2- Amount hedged for USD risk (-)		
3- USD net effect (1+2)	**445,889**	**(445,889)**
In case 10% appreciation of EUR against TL:		
4- EUR net asset/liability	**174,212**	**(174,212)**
5- Amount hedged for EUR risk (-)		
6- EUR net effect (4+5)	**174,212**	**(174,212)**
In case 10% appreciation of GBP against TL:		
7- GBP net asset/liability	**252,244**	**(252,244)**
8- Amount hedged for GBP risk (-)		
9- GBP net effect (7+8)	**252,244**	**(252,244)**
Total (3+6+9)	**872,345**	**(872,345)**

31 December 2015	**Profit before tax** **Appreciation of foreign currency**	**Profit before tax** **Depreciation of foreign currency**
In case 10% appreciation of USD against TL:		
1- USD net asset/liability	**736,593**	**(736,593)**
2- Amount hedged for USD risk (-)	**-**	**-**
3- USD net effect (1+2)	**736,593**	**(736,593)**
In case 10% appreciation of EUR against TL:		
4- EUR net asset/liability	**(190,786)**	**190,786**
5- Amount hedged for EUR risk (-)	**-**	**-**
6- EUR net effect (4+5)	**(190,786)**	**190,786**
In case 10% appreciation of GBP against TL:		
7- GBP net asset/liability	**(14,020)**	**14,020**
8- Amount hedged for GBP risk (-)	**-**	**-**
9- GBP net effect (7+8)	**(14,020)**	**14,020**
Total (3+6+9)	**531,787**	**(531,787)**

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

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

b) Interest position table and related sensitivity analysis

Interest rate risk

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

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

As of 31 December 2016 and 2015, the financial liabilities of the Group are consisted of fixed rate bank borrowings.

Capital risk management

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

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

	31 December 2016	31 December 2015
Total financial liability	430,119,077	615,277,836
Less: Cash and cash equivalents (Note 4)	(38,598,352)	(58,736,065)
Net financial liability	391,520,725	556,541,771
Total equity	242,958,092	245,239,099
Financial debt/shareholders' equity factor	**161%**	**227%**

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

NOTE 29 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group's assets that are measured at fair value at 31 December 2016 and 2015:

31 December 2016

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	51,800	-	51,800
Total	**-**	**51,800**	**-**	**51,800**

31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	146,636	-	146,636
Total	**-**	**146,636**	**-**	**146,636**

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 Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The Group 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.

NOTE 30 - SUBSEQUENT EVENTS

None.

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

None.

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