

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

Otokar Otomotiv ve Savunma Sanayi Anonim Őirketi

**Financial statements as of December 31, 2014
together with report of independent auditors**

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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Independent auditors' report on the financial statements

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

We have audited the accompanying balance sheet of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi (the Company) as at 31 December 2014 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the financial statements

Company's management is responsible for the preparation and fair presentation of financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") of Turkey and for such internal controls as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent auditors' responsibility

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

Independent audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Company and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

Reports on other responsibilities arising from regulatory requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on February 13, 2015.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2014 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

Erdem Tecer, SMMM
Partner

February 13, 2015
İstanbul, Türkiye

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Statement of financial position
as of December 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated)

		Current period	Prior period
		(Audited)	(Audited)
	Notes	December 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	4	44.527.697	8.884.174
Trade receivables	8	268.230.380	399.220.867
- Due from related parties	27	50.877.972	71.374.049
- Trade receivables, third parties	8	217.352.408	327.846.818
Other receivables	9	958	2.524
Inventories	10	264.162.428	297.797.165
Derivative financial instruments	7	1.726.888	-
Prepaid expenses	17	78.996.994	74.985.116
Current income tax assets	25	2.106.718	-
Other current assets	17	12.306.871	17.053.925
Total current assets		672.058.934	797.943.771
Non-current assets			
Trade receivables	8	140.255.060	192.938.324
Other receivables	9	101.585	58.112
Estimated earnings in excess of billings on uncompleted contracts	11	129.854.389	93.597.289
Financial investments	5	239.280	239.280
Property, plant and equipment	12	112.260.055	120.842.623
Intangibles	13	141.447.509	126.292.737
Deferred tax asset	25	39.335.574	43.338.020
Total non-current assets		563.493.452	577.306.385
Total assets		1.235.552.386	1.375.250.156

The accompanying policies and explanatory notes on pages 8 through 62 form an integral part of these financial statements.

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Statement of financial position
as of December 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated)

		Current period (Audited) December 31, 2014	Prior period (Audited) December 31, 2013
	Notes		
Liabilities			
Current liabilities			
Short term financial liabilities	6	29.751.877	138.276.975
Short term portion of long term financial liabilities	6	45.915.500	2.686.797
Derivative financial liabilities	7	-	1.231.950
Trade payables	8	81.523.996	102.434.509
- Due to related parties	27	10.320.537	13.154.537
- Trade payables, third parties	8	71.203.459	89.279.972
Employee benefit obligations	17	17.106.197	19.143.540
Other payables	9	16.383.024	10.819.100
Deferred income	17	263.802.421	288.689.497
Government incentives and grants	14	2.033.845	1.467.624
Current income tax liabilities	25	-	7.043.047
Short term provisions	15	176.376.805	95.999.670
Other current liabilities	17	2.025.403	1.615.447
Total current liabilities		634.919.068	669.408.156
Non-current liabilities			
Financial liabilities	6	273.846.971	332.047.500
Government incentives and grants	14	7.162.947	7.055.794
Long term provisions		30.785.378	26.957.401
- Provision for employee benefits	16	26.351.029	20.616.223
- Other provisions	15	4.434.349	6.341.178
Deferred income	17	44.510.646	66.511.725
Total non-current liabilities		356.305.942	432.572.420
Shareholders' equity			
Parent Company's equity			
Paid-in share capital	18	24.000.000	24.000.000
Inflation adjustment on equity items	18	52.743.030	52.743.030
Restricted reserves	18	38.958.147	29.078.147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	18	(5.264.855)	(3.551.453)
Retained earnings	18	61.119.856	74.438.113
Net income for the year	18	72.771.198	96.561.743
Total shareholders' equity		244.327.376	273.269.580
Total liabilities		1.235.552.386	1.375.250.156

The accompanying policies and explanatory notes on pages 8 through 62 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Profit or loss and other comprehensive income statement
for the year ended December 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated)

		Current period	Prior period
		Audited	Audited
	Notes	January 1 – December 31, 2014	January 1 – December 31, 2013
Net sales	19	1.231.633.772	1.401.552.934
Cost of sales (-)	19	(919.528.400)	(1.086.542.059)
Gross profit		312.105.372	315.010.875
Marketing, sales and distribution expenses (-)	20	(132.494.804)	(118.705.403)
General administrative expense (-)	20	(39.819.107)	(38.480.120)
Research and development expenses (-)	20	(28.658.352)	(25.796.799)
Other operating income	22	87.200.968	101.332.808
Other operating expense (-)	22	(76.415.130)	(75.374.133)
Operating profit		121.918.947	157.987.228
Income from investment activities		55.898	306.498
Expenses from investment activities(-)		-	-
Operating income before financial expense		121.974.845	158.293.726
Financial income	23	14.467.603	3.007.922
Financial expense (-)	24	(54.658.600)	(53.053.328)
Income before tax		81.783.848	108.248.320
Tax income/expense			
- Tax expense for the year (-)	25	(4.581.854)	(43.676.005)
- Deferred tax income/ (expense)	25	(4.430.796)	31.989.428
Net income		72.771.198	96.561.743
Actuarial gains/loss on defined benefit plans		(2.141.752)	(1.281.279)
Tax effect		428.350	256.256
Other comprehensive income/ (expense) after tax		(1.713.402)	(1.025.023)
Total comprehensive income		71.057.796	95.536.720
Earnings per share (kr)	26	0,303	0,402

The accompanying policies and explanatory notes on pages 8 through 62 form an integral part of these financial statements.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Statement of changes in equity

for the year ended December 31, 2014

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

				Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss			
	Paid-in share capital	Inflation adjustment on equity items	Restricted reserves	Actuarial gains/loss on defined benefit plans	Retained earnings	Net income for the year	Total shareholders' equity
Balance at January 1, 2013 previously reported	24.000.000	52.743.030	22.798.147	(2.526.430)	66.441.516	78.276.597	241.732.860
Transfer to retained earnings	-	-	-	-	78.276.597	(78.276.597)	-
Transfer to restricted reserves	-	-	6.280.000	-	(6.280.000)	-	-
Dividend paid	-	-	-	-	(64.000.000)	-	(64.000.000)
Net profit for the period	-	-	-	-	-	96.561.743	96.561.743
Other comprehensive income/(expense)	-	-	-	(1.025.023)	-	-	(1.025.023)
Total comprehensive income	-	-	-	(1.025.023)	-	96.561.743	95.536.720
Balance at December 31,2013	24.000.000	52.743.030	29.078.147	(3.551.453)	74.438.113	96.561.743	273.269.580
Balance at January 1, 2014	24.000.000	52.743.030	29.078.147	(3.551.453)	74.438.113	96.561.743	273.269.580
Transfer to retained earnings	-	-	-	-	96.561.743	(96.561.743)	-
Transfer to restricted reserves	-	-	9.880.000	-	(9.880.000)	-	-
Dividend paid	-	-	-	-	(100.000.000)	-	(100.000.000)
Net profit for the period	-	-	-	-	-	72.771.198	72.771.198
Other comprehensive income/(expense)	-	-	-	(1.713.402)	-	-	(1.713.402)
Total comprehensive income	-	-	-	(1.713.402)	-	72.771.198	71.057.796
Balance at December 31,2014	24.000.000	52.743.030	38.958.147	(5.264.855)	61.119.856	72.771.198	244.327.376

The accompanying policies and explanatory notes on pages 8 through 62 form an integral part of these financial statements.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Cash flow statement
for the year ended December 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated)

		(Audited)	(Audited)
		Current period	Prior period
		January 1 –	January 1 –
	Notes	December 31,	December 31,
		2014	2013
Cash flows from operating activities			
Income before taxes		81.783.848	108.248.320
Adjustments to reconcile income before taxes to net cash flows from operating activities:			
Depreciation and amortization	12,13	46.195.954	40.447.945
Provision for retirement pay liability	21	6.224.424	3.340.044
Provision for impairment for inventories	10, 21	190.285	(311.216)
Warranty provision expenses	15, 21	23.001.911	28.233.403
Gain on sale of property, plant and equipment		(55.898)	(306.498)
Loan interest expense	24	42.069.785	33.686.402
Unrealised foreign exchange (income) / loss incurred from borrowings		(2.073.200)	13.353.300
Demand deposit interest income	23	(1.461.384)	(322.326)
Provision for doubtful receivables	8, 22	565.838	2.309.088
Forward transactions, net		(11.467.741)	19.225.508
Operating profit before changes in operating asset and liabilities		184.973.822	247.903.970
Trade and other receivables		183.066.006	(310.388.076)
Estimated earnings in excess of billings on uncompleted contracts		(36.257.100)	(32.272.243)
Inventories		33.444.452	(44.852.962)
Other current assets		795.755	62.895.322
Trade payables		(20.910.513)	17.407.911
Other liabilities, provisions and other current liabilities		39.771.888	86.102.406
Realized gain from forward transactions, net		8.508.903	(20.186.570)
Income taxes paid		(13.792.197)	(36.632.958)
Warranties paid	15	(25.642.981)	(20.812.684)
Employee termination benefits paid	16	(3.570.127)	(2.164.300)
Net cash (used in)/provided by operating activities		350.387.908	(53.000.184)
Cash flows from investing activities			
Cash paid for acquisition of property, plant and equipment	12	(8.773.400)	(14.008.492)
Cash paid for acquisition of intangible assets	13	(44.438.216)	(50.329.976)
Proceeds from sale of property, plant and equipment		499.356	2.215.686
Net cash used in investing activities		(52.712.260)	(62.122.782)
Cash flows from financing activities			
Proceeds from bank borrowings		262.582.894	352.349.508
Repayments of bank borrowings		(389.251.873)	(186.193.000)
Interest payments		(36.824.530)	(26.377.939)
Interest received		1.461.384	322.326
Dividends paid		(100.000.000)	(64.000.000)
Net cash (used in) / provided by financing activities		(262.032.125)	76.100.895
Net (decrease)/increase in cash and cash equivalents		35.643.523	(39.022.071)
Cash and cash equivalents at the beginning of the year	4	8.884.174	47.906.245
Cash and cash equivalents at the end of the year	4	44.527.697	8.884.174

The accompanying policies and explanatory notes on pages 8 through 62 form an integral part of these financial statements.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
as of December 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated)**

1. Organization and nature of operations

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

The Company operates in the automotive industry and off road vehicles, armoured vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production. The number of the personnel in the Company is 2.054 (December 31, 2013 - 2.264).

The registered addresses of the Company are as follows:

Headquarters:

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

Factory:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

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

Financial statements have been authorized for issue by the Board of Directors of the Company on February 13, 2015 and signed by Ahmet Serdar Görgüç, General Manager and Hüseyin Odabaş, Financial Vice General Manager on behalf of Board of Directors of the Company. Although there is no such intention, the Company Management and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The Company conducts part of its business transactions with the Koç Holding A.Ş. and related parties. There are certain related parties which are both customers and vendors of the Company. The Company is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul (“BIST”), previously Istanbul Stock Exchange (“ISE”) since 1996. As of December 31, 2014, the shares listed on the BIST are 27,11% of the total shares.

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

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

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)**

2. Basis of presentation of financial statements

2.1 Basis of presentation

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

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

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

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

In accordance with the CMB's resolution dated March 17, 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of December 31, 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of December 31, 2014 and December 31, 2013 have been restated by applying the relevant conversion factors through December 31, 2004 and carrying additions after December 31, 2004 at their nominal values.

2.2 Comparative information and reclassifications in prior period financial statements

In order to be inline with current period financial statements, the Company reclassified deferred maintenance revenue amounting to TL 17.637.017 from short term deferred revenue to long term deferred revenue as of December 31, 2013.

2.3 Accounting errors and changes in accounting estimates

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

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**Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)**

2. Basis of presentation of financial statements (continued)

2.4 Changes in accounting policies

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

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at 31 December 2014 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2014. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2014 are as follows:

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

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the TAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments did not have an impact on the financial statements of the Company.

TFRS Interpretation 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is not applicable for the Company and did not have any impact on the financial position or performance of the Company.

TAS 36 Impairment of Assets (Amended) - Recoverable Amount Disclosures for Non-Financial assets

As a consequential amendment to TFRS 13 Fair Value Measurement, some of the disclosure requirements in TAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets has been modified. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. These amendments did not have an impact on the financial statements of the Company.

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**Notes to the financial statements
as of December 31, 2014 (continued)
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2. Basis of presentation of financial statements (continued)

TAS 39 Financial Instruments: Recognition and Measurement (Amended)- Novation of Derivatives and Continuation of Hedge Accounting

Amendments provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. These amendments did not have an impact on the financial statements of the Company.

TFRS 10 Consolidated Financial Statements (Amendment)

TFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with TFRS. This amendment does not have any impact on the financial position or performance of the Company.

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

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

TFRS 9 Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new TFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is adopted by POA.

TAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

TAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are to be retrospectively applied for annual periods beginning on or after 1 July 2014. The amendments will not have an impact on the financial position or performance of the Company.

TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. These amendments are to be applied prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Company.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)**

2. Basis of presentation of financial statements (continued)

**TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation
(Amendments to TAS 16 and TAS 38)**

The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Company.

TAS 16 Property, Plant and Equipment and TAS 41 Agriculture (Amendment) – Bearer Plants

TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

Annual Improvements to TAS/TFRSs

In September 2014, Public Oversight Authority (POA) has issued the below amendments to the standards in relation to “Annual Improvements - 2010–2012 Cycle” and “Annual Improvements - 2011–2013 Cycle. The changes are effective for annual reporting periods beginning on or after 1 July 2014.

Annual Improvements - 2010–2012 Cycle

TFRS 2 Share-based Payment:

Definitions relating to vesting conditions have changed and performance condition and service condition are defined in order to clarify various issues. The amendment is effective prospectively.

TFRS 3 Business Combinations

Contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of TFRS 9 Financial Instruments. The amendment is effective for business combinations prospectively.

TFRS 8 Operating Segments

The changes are as follows: i) Operating segments may be combined/aggregated if they are consistent with the core principle of the standard. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
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2. Basis of presentation of financial statements (continued)

TAS 16 Property, Plant and Equipment and TAS 38 Intangible Assets

The amendment to TAS 16.35(a) and TAS 38.80(a) clarifies that revaluation can be performed, as follows:

i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment is effective retrospectively.

TAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. The amendment is effective retrospectively.

Annual Improvements – 2011–2013 Cycle

TFRS 3 Business Combinations

The amendment clarifies that: i) Joint arrangements are outside the scope of TFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

Amendment to the Basis for Conclusions on TFRS 13 Fair Value Measurement

The portfolio exception in TFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective prospectively.

TAS 40 Investment Property

The amendment clarifies the interrelationship of TFRS 3 and TAS 40 when classifying property as investment property or owner-occupied property. The amendment is effective prospectively.

The Company do not expect that these amendments will have significant impact on the financial position or performance of the Company.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

Annual Improvements – 2010–2012 Cycle

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

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**Notes to the financial statements
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2. Basis of presentation of financial statements (continued)

Annual Improvements – 2011–2013 Cycle

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 is effective for reporting periods beginning on or after 1 January 2017, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 9 Financial Instruments - Final standard (2014)

In July 2014 the IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

In August 2014, IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

- At cost
 - In accordance with IFRS 9 (or IAS 39),
- Or
- Using the equity method

The entity must apply the same accounting for each category of investments. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments must be applied retrospectively. Early application is permitted and must be disclosed. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

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2. Basis of presentation of financial statements (continued)

Annual Improvements to IFRSs - 2012-2014 Cycle

In September 2014, IASB issued their annual cycle of improvements to IFRSs, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
- IFRS 7 Financial Instruments: Disclosures – servicing contracts; applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits – regional market issue regarding discount rate
- IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In September 2014, IASB issued amendments to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors’ interests in that former subsidiary. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

ALTERNATIVE 1: In December 2014, IASB issued amendments to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

In December 2014, IASB issued amendments to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments are not expected have significant impact on the notes to the financial statements of the Company.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
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2. Basis of presentation of financial statements (continued)

2.5 Significant accounting judgments and estimates

The preparation of the financial statements require management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Those estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Significant estimates used in the preparation of these financial statements and the significant judgments with the most significant effect on amounts recognized in the financial statements are as follows:

- a) In the context of IAS 11 “Construction contracts” assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended December 31, 2014, since the Management believed the -indicators demonstrating that the Company will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) Reserve for retirement pay is determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates).
- d) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- e) Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, other than related parties, are assessed with their prior year performances, their credit risk in the current market, and their individual performances after the balance sheet date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.
- f) Inventory price lists after discount is used to calculate impairment for inventories. In such cases that sales price cannot be predicted, inventory aging and physical status are considered together with technical personnel’s opinion. If anticipated expected net realizable value is less than the cost, impairment for the difference is provided for.
- g) When allocating provision for legal risks, the probabilities of failure in the cases and the possible liabilities to be arisen in the case of failure are evaluated by the management through being counseled by legal advisors of the Company. The management determines the amount of the provisions based on their best estimates.
- h) The Company has made certain important assumptions based on experiences of technical personnel in determining useful economic life of mainly related to tangible and intangible assets.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
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2. Basis of presentation of financial statements (continued)

2.6 Summary of significant accounting policies

Revenue recognition

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

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

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.

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2. Basis of preparation financial statements (continued)

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

Related parties

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

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

Inventories

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

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

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

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

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**Notes to the financial statements
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2. Basis of preparation financial statements (continued)

Property, plant and equipment

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

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

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

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

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

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 December 31, 2004 with the index of the related purchase date. Intangible assets are stated at cost less accumulated depreciation and accumulated impairment loss.

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
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2. Basis of presentation of financial statements (continued)

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.

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.

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2. Basis of preparation financial statements (continued)

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

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

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

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

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

Long-term employee benefits

(a) Defined benefit plans:

Retirement pay liability

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

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

(b) Defined contribution plans:

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

Foreign currency transactions

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

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**Notes to the financial statements
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2. Basis of preparation financial statements (continued)

Provisions

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

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

Contingent liabilities and assets

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

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

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

Share capital and dividend

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

Operating leases

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

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.

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**Notes to the financial statements
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2. Basis of presentation of financial statements (continued)

Financial instruments

Financial assets

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

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

Available for sale investments

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

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

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

Cash and cash equivalents

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

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

Trade receivables

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

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

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2. Basis of preparation financial statements (continued)

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

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

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

Trade payables

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

Borrowings

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

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

Derivative financial instruments

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

Impairments in financial assets

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

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

2. Basis of preparation financial statements (continued)

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

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

Recognition and derecognition of financial assets and liabilities

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

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

Foreign currency transactions

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

Earnings per share

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

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

Subsequent events

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements
as of December 31, 2014 (continued)
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2. Basis of preparation financial statements (continued)

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

Impairment of non-financial assets

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

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

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

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

Borrowing costs

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

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

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

Offsetting

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

2.7 Convenience translation into English of financial statements originally issued in Turkish

The accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, classification of some income statement items and also for certain disclosures requirement of the POA.

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Notes to the financial statements
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3. Segment reporting

Financial statements of the Otokar Europe SAS have not been consolidated to financial statements of the Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi since the operations of the Otokar Europe SAS company have not had significant effect on the financial statements of the Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi as specified in Note 5 and has been presented at historical cost. As a consequence of this, the Company follows its operations in one segment, does not have different geographical and operational segments and the Company does not prepare segment reporting.

4. Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash at banks		
- Demand deposits	415.875	1.921.397
- Time deposits	42.551.560	4.071.425
Cheques and notes received	1.519.333	2.862.136
Other	40.929	29.216
	44.527.697	8.884.174

As of December 31, 2014, TL 927.560 of total time deposits amounting to TL 42.551.560 is in foreign currency and effective interest rate of time deposits amounting to TL 927.560 that are in foreign currency is annually 0,5% and the maturity is 2 days. Effective interest rate of remaining time deposits which are originally amounting to TL 41.624.000 is annually 10,98% and the maturity is 2 day.

(As of December 31, 2013, TL 1.321.425 of total time deposits amounting to TL 4.071.425 is in foreign currency and effective interest rate of time deposits amounting to TL 1.321.425 that are in foreign currency is annually 4,21% and the maturity is 2 days. Effective interest rate of remaining time deposits which are originally amounting to TL 2.750.000 is annually % 6 and the average maturity is 2 day.)

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

As of December 31, 2014, the Company has restricted bank deposit amounting to TL 862 (December 31, 2013 - TL 862).

5. Financial investments

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

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Notes to the financial statements
as of December 31, 2014 (continued)
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6. Financial liabilities

December 31, 2014			
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL(**)	January 2, 2015 – January 5, 2015	0,00	524.367
Denominated in Euro	January 2, 2015	3,11-3,17	29.227.510
Total			29.751.877

Payments of the long-term bank borrowings and interest accruals (*)			
Denominated in TL	March 11, 2016 – October 17, 2016	8,05-11,73	2.375.726
Denominated in Euro	February 9, 2015	2,04	43.539.774
Total			45.915.500

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

- (*) Bearing fixed interest rate
(**) Weighted average maturity days of long-term borrowings are 661.
(***) Interest free loan for the SSI payment

December 31, 2013			
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL	January 2, 2014 - July 25, 2014	11,36	32.048.744
Denominated in Euro	January 2, 2014	2,59-2,64	106.228.231
Total			138.276.975

Payments of the long-term bank borrowings and interest accruals (*)			
Denominated in TL	January 26, 2015 – June 3, 2016	8,36-11,90	2.326.037
Denominated in Euro	February 9, 2015	2,04	360.760
Total			2.686.797

December 31, 2013			
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)(**)			
Denominated in TL	January 26, 2015 – June 3, 2016	8,36-11,90	288.000.000
Denominated in Euro	February 9, 2015	2,04	44.047.500
Total			332.047.500

- (*) Bearing fixed interest rate
(**) Weighted average maturity days of long-term borrowings are 696.

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Notes to the financial statements
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7. Derivative financial instruments

As of December 31, 2014, the Company has not provided any guarantees for the borrowings received (December 31, 2013 - None).

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

	Contract amount	Contract maturity	Fair values Assets
December 31, 2014:			
Forward transactions	137.947.680	January 8, 2015 – February 5, 2015	1.726.888
Short-term derivative financial instruments	137.947.680		1.726.888
Total derivative financial instruments	137.947.680		1.726.888
December 31, 2013:			
Forward transactions	170.169.265	January 9, 2014 – February 13, 2014	(1.231.950)
Short-term derivative financial instruments	170.169.265		(1.231.950)
Total derivative financial instruments	170.169.265		(1.231.950)

8. Trade receivables and payables

Trade receivables

	December 31, 2014	December 31, 2013
Trade receivables, net	132.684.387	247.876.807
Notes receivables, net	107.194.793	101.931.133
	239.879.180	349.807.940
Less: provision for doubtful receivables	(22.526.772)	(21.961.122)
Other short-term trade receivables	217.352.408	327.846.818
Trade receivables from related parties (Note 27)	50.877.972	71.374.049
Short-term trade receivables	268.230.380	399.220.867
Long-term trade receivables, net	125.884.462	178.669.298
Long-term notes receivable, net	14.370.598	14.269.026
Long-term trade receivables	140.255.060	192.938.324

As of December 31, 2014, average collection term for trade receivables (except notes receivables) is 60-90 days (December 31, 2013 – 60-90 days).

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Notes to the financial statements
as of December 31, 2014 (continued)
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8. Trade receivables and payables (continued)

Guarantees received for trade receivables

Receivables of the Company mainly relate to the sales to the minibus and bus dealers, trailer sales and military vehicle sales. As of December 31, 2014, the total trade receivable from dealers amounting to TL 60.016.673 (December 31, 2013 - TL 47.451.597), after provision reserved for

doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 126.993.500 (December 31, 2013 - TL 115.753.500). The Company manages its credit risk for the remaining receivables through policies and procedures as explained in the Credit Risk section of Note 28.

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

<u>December 31, 2014</u>	<u>Trade receivables</u>
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	152
1- 5 year past due(*)	174.176
Over 5 year past due	-
Total	174.328
Amount secured with guarantee (1)	173.035

<u>December 31, 2013</u>	<u>Trade receivables</u>
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due(*)	275.818
Over 5 year past due	-
Total	275.818
Amount secured with guarantee (1)	275.818

(1) Pledges on trailers.

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

The movement of the provision for doubtful receivables for the year ended December 31, 2014 and December 31, 2013 are as follows:

	<u>December,31</u> <u>2014</u>	<u>December,31</u> <u>2013</u>
January 1	21.961.122	19.747.448
Collections	(188)	(95.414)
Additional provision (Note 22)	565.838	2.309.088
As of December 31	22.526.772	21.961.122

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Notes to the financial statements
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8. Trade receivables and payables (continued)

Trade payables

	December,31 2014	December,31 2013
Trade payables, net	70.978.759	89.077.102
Notes payables, net	224.700	202.870
Short-term trade payables	71.203.459	89.279.972
Trade payables to related parties (Note 27)	10.320.537	13.154.537
Short-term trade payables	81.523.996	102.434.509

As of December 31, 2014, average payment term for trade payables is 45-60 days (December 31, 2013 – 45-60 days).

9. Other receivables and payables

Other short-term receivables

	December 31, 2014	December,31 2013
Due from personnel	958	2.524
Total	958	2.524

Other long-term receivables

	December 31, 2014	December,31 2013
Deposits and guarantees given	101.585	58.112
Total	101.585	58.112

Other short-term payables

	December 31, 2014	December,31 2013
Other miscellaneous payables	16.383.024	10.819.100
Total	16.383.024	10.819.100

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
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10. Inventories

	December 31, 2014	December,31 2013
Raw material	93.535.860	126.204.804
Work-in-process	16.423.428	3.974.688
Finished goods	33.518.461	42.478.530
Merchandise	50.425.115	43.191.637
Goods in transit	71.754.321	83.251.978
(*) Impairment for inventories (-)	(1.494.757)	(1.304.472)
Total	264.162.428	297.797.165

(*) TL 1.356.002 of impairment is related to finished goods (December 31, 2013 - 1.049.500) and TL 138.755 is related to merchandises (December 31, 2013 - 254.972). The impairment has been accounted under cost of sales account.

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

	December 31, 2014	December,31 2013
January 1, 2014	(1.304.472)	(1.615.688)
Provision/ Provision no longer required (Note 21)	(190.285)	311.216
December 31, 2014	(1.494.757)	(1.304.472)

11. Costs and billings on uncompleted contracts and other payables

Receivable from uncompleted contracts is to TL 129.854.827 as of December 31, 2014 (December 31, 2013 – TL 93.597.289) after netting with short term advance taken.

As of December 31, 2014, the short term advances taken by the Company related with ongoing projects which amounts to TL 113.014.910 was included in deferred revenues in the financial statements (December 31, 2013 – TL 232.113.373). Rest of the amount TL 130.933.443 which is included in deferred income is composed of other advance taken from customer (December 31, 2013 – TL 36.402.368) and other payables as amounting to TL 19.854.068 (December 31, 2013 – TL 20.173.756).

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Notes to the financial statements
as of December 31, 2014 (continued)
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12. Property, plant and equipment

For the year ended December 31, 2014, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land improvements	11.309.351	22.539	-	289.976	11.621.866
Buildings	60.170.668	-	-	-	60.170.668
Machinery, equipments and installations	111.943.555	2.304.508	(6.344.057)	485.060	108.389.066
Motor vehicles	7.957.194	1.660.100	(448.192)	-	9.169.102
Furniture and fixtures	31.761.624	2.259.922	(121.110)	668.471	34.568.907
Leasehold improvements	2.734.585	27.581	-	79.599	2.841.765
Construction in process	1.778.321	2.498.750	-	(1.921.941)	2.355.130
	265.112.044	8.773.400	(6.913.359)	(398.835)	266.573.250
Accumulated depreciation:					
Land improvements	4.654.789	1.522.158	-	-	6.176.947
Buildings	29.073.222	2.818.009	-	-	31.891.231
Machinery, equipments and installations	86.240.277	7.852.167	(6.286.816)	-	87.805.628
Motor vehicles	4.071.036	752.826	(86.379)	-	4.737.483
Furniture and fixtures	18.760.344	3.202.956	(96.706)	-	21.866.594
Leasehold improvements	1.469.753	365.559	-	-	1.835.312
	144.269.421	16.513.675	(6.469.901)	-	154.313.195
Net book value	120.842.623				112.260.055

For the year ended December 31, 2013, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2013	Additions	Disposals	Transfers	December 31, 2013
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land improvements	10.068.228	12.806	-	1.228.317	11.309.351
Buildings	59.598.896	-	-	571.772	60.170.668
Machinery, equipment and installations	108.789.029	2.626.070	(434.628)	963.084	111.943.555
Motor vehicles	8.703.831	1.506.517	(2.253.154)	-	7.957.194
Furniture and fixtures	27.791.048	3.408.838	(308.248)	869.986	31.761.624
Leasehold improvements	1.737.346	180.642	-	816.597	2.734.585
Construction in progress	867.007	6.273.619	-	(5.362.305)	1.778.321
	255.012.131	14.008.492	(2.996.030)	(912.549)	265.112.044
Accumulated depreciation:					
Land improvements	3.169.967	1.484.822	-	-	4.654.789
Buildings	26.329.510	2.743.712	-	-	29.073.222
Machinery, equipment and installations	78.767.835	7.888.637	(416.195)	-	86.240.277
Motor vehicles	3.798.622	676.214	(403.800)	-	4.071.036
Furniture and fixtures	16.542.448	2.484.744	(266.848)	-	18.760.344
Leasehold improvements	1.291.595	178.158	-	-	1.469.753
	129.899.977	15.456.287	(1.086.843)	-	144.269.421
Net book value	125.112.154				120.842.623

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Notes to the financial statements
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12. Property, plant and equipment (continued)

For the years ended December 31, 2014 and 2013, the allocation of depreciation and amortization expenses of property, plant and equipment and intangibles has been as follows:

	December 31, 2014	December 31, 2013
Research and development expenses	27.832.162	23.503.078
Costs related to uncompleted contracts	7.754.889	7.002.752
Cost of goods sold	5.604.003	5.681.297
Development projects in process	1.903.383	1.742.078
General administrative expenses	1.477.713	1.333.315
Selling and marketing expenses	1.118.856	736.227
Depreciation on outstanding inventories	504.948	449.198
Total	46.195.954	40.447.945

As of December 31, 2014 and December 31, 2013, gross values of fully depreciated items which are still in use are as follows:

	December 31, 2014	December 31, 2013
Machinery, equipment and installations	63.645.564	65.632.260
Motor vehicles	2.588.360	2.588.360
Furniture and fixtures	12.398.162	12.135.350
Leasehold improvements	1.122.862	1.120.006
Total	79.754.948	81.475.976

13. Intangible assets

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

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

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13. Intangible assets (continued)

For the year ended December 31, 2013, the movement of intangibles and accumulated amortization is as follows:

	January 1, 2013	Additions	Transfers	December 31, 2013
Cost:				
Other intangible assets	10.181.064	1.195.768	912.549	12.289.381
Development costs	114.200.265	-	33.169.073	147.369.338
Development projects in process	19.674.691	49.134.208	(33.169.073)	35.639.826
	144.056.020	50.329.976	912.549	195.298.545
Accumulated amortization:				
Other intangible assets	6.882.799	1.488.581	-	8.371.380
Development costs	37.131.351	23.503.077	-	60.634.428
	44.014.150	24.991.658		69.005.808
Net book value	100.041.870			126.292.737

As of December 31, 2014 and December 31, 2013, the gross values of fully amortized intangible assets which are still in use are as follows:

	December 31, 2014	December 31, 2013
Other intangible assets	6.812.786	6.131.494
R&D expenses (amortized)	26.784.388	5.848.347
Total	33.597.174	11.979.841

14. Government grants and incentives

	December 31, 2014	December 31, 2013
Short term	2.033.845	1.467.624
Long term	7.162.947	7.055.794
Total	9.196.792	8.523.418

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

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15. Provisions, contingent assets and liabilities

Provisions – short term

	December 31, 2014	December 31, 2013
Provision for other costs	153.473.113	76.011.181
Warranty provision	18.180.739	18.914.980
Foundation employer's share of social security premium	2.925.000	-
Provision for license costs	1.264.726	735.433
Provision for legal cases	100.000	127.838
Other	433.227	210.238
Total	176.376.805	95.999.670

Provisions – long term

	December 31, 2014	December,31 2013
Warranty provision	4.434.349	6.341.178
	4.434.349	6.341.178

Provision for other costs

Includes costs incurred by the Company related with tank project, which were not charged yet, and costs incurred by the subcontractors that will be invoiced to the Company at the end of the project, which were computed according to the estimated percentage of completion.

	December 31, 2014	December,31 2013
January 1	76.011.181	208.617.007
Additional provision/payment,net	67.226.997	(124.345.166)
Foreign exchange valuation	10.234.935	(8.260.660)
As of December 31	153.473.113	76.011.181

Warranty provision

The Company 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:

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Notes to the financial statements
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15. Provisions, contingent assets and liabilities (continued)

	December 31, 2014	December,31 2013
January 1	25.256.158	17.835.439
Additional provision (Note 21)	23.001.911	28.233.403
Realized payments	(25.642.981)	(20.812.684)
As of December 31	22.615.088	25.256.158

Provision for license costs

The movements of provision for license costs are as follows:

	December 31, 2014	December,31 2013
January 1	735.433	894.634
Increase	1.934.544	717.851
Realized	(1.405.251)	(877.052)
As of December 31	1.264.726	735.433

Commitments and contingencies

As of December 31, 2014 and December 31, 2013, the tables which represent the position of guarantees, pledges and mortgages are as follow:

	December 31, 2014	December 31, 2013
Guarantees given by the Company		
a. Total amount of guarantees, pledges and mortgages given in the name of legal entity	846.743.403	796.640.829
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	846.743.403	796.640.829

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

	December 31, 2014		December 31, 2013	
	Original currency	TL	Original currency	TL
USD	236.106.385	547.507.096	274.909.369	586.739.066
EUR	38.486.835	108.559.815	40.592.173	119.198.916
SAR	-	-	22.000.000	12.519.320
TL	190.676.492	190.676.492	78.183.527	78.183.527
		846.743.403		796.640.829

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15. Provisions, contingent assets and liabilities (continued)

	December 31, 2014	December 31, 2013
Guarantee letters given		
Under secretariat of Ministry of Defence (*)	462.293.181	421.597.311
Other	384.450.222	375.043.518
	846.743.403	796.640.829

Letters of guarantees

a) Guarantees given as of December 31, 2014 and December 31, 2013 are as follows:

	December 31, 2014	December 31, 2013
Bank letters of guarantee (*)	846.743.403	796.640.829
	846.743.403	796.640.829

(*) Bank letter of guarantee amounting to TL 458.062.131 are given to Under Secretariat of Ministry of Defence within the scope of Altay Project. (December 31, 2013 – TL 421.597.311)

b) Guarantee received as of December 31, 2014 and 2013 as follows;

	December 31, 2014	December 31, 2013
Bank letters of guarantee (**)	346.144.591	331.750.195
Guarantee notes	24.410.289	37.121.748
Mortgages received	842.000	842.000
Guarantee cheques	6.548.000	280.000
	377.944.880	369.993.943

(**) Bank letters of guarantee amounting to TL 156.811.967 are obtained from the sub-contractors for Altay Project (December 31, 2013 - TL 146.570.489).

Contingent assets

The tax case related to the unused R&D deductions related to 2010 has concluded in favor of the Company and TL 2.923.627 has been refunded to the Company. In connection with the same matter, the Company has filed law suits for 2011, 2012 and 2013 and legal process is at the appeal stage. The expected refunds are TL 3.963.320 for 2011; TL 6.821.730 for 2012; and TL 20.922.191 for 2013.

16. Employee benefits

	December 31, 2014	December 31, 2013
Provision for retirement pay liability	20.969.191	16.173.142
Provision for vacation pay liability	5.381.838	4.443.081
Total	26.351.029	20.616.223

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16. Employee benefits (continued)

Reserve for retirement pay

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

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

The amount payable consists of one month's salary limited to a maximum of TL 3.448 for each year of service as of December 31, 2014 (December 31, 2013 - TL 3.254).

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

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

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

	December 31, 2014	December 31, 2013
Net discount rate (%)	3,50	4,78
Turnover rate to estimate the probability of retirement (%)	2,59	2,66

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

The movements of reserve for retirement pay are as follows:

	December 31, 2014	December 31, 2013
January 1	16.173.142	13.716.119
Interest expense	1.463.669	1.241.308
Current year provision	4.760.755	2.098.736
Actuarial loss	2.141.752	1.281.279
Payments	(3.570.127)	(2.164.300)
As of December 31	20.969.191	16.173.142

Provision for vacation pay liability

The movements of reserve for vacation pay are as follows:

	December 31, 2014	December 31, 2013
January 1	4.443.081	3.313.961
Net increase (Note 21)	938.757	1.129.120
As of December 31	5.381.838	4.443.081

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17. Prepaid expenses, deferred revenue, other assets and liabilities

a) Prepaid expenses:

	December 31, 2014	December 31, 2013
Advances given	75.972.542	70.119.607
Prepaid expenses	3.024.452	4.865.509
Total	78.996.994	74.985.116

b) Other current assets:

	December 31, 2014	December 31, 2013
Value added tax receivables	11.466.073	16.242.267
Other	840.798	811.658
Total	12.306.871	17.053.925

c) Deferred income:

	December 31, 2014	December 31, 2013
Deferred maintenance revenues (*)	19.378.209	20.173.756
Other deferred revenues (**)	475.859	-
Advance taken	243.948.353	268.515.741
Deferred income-short term	263.802.421	288.689.497
Deferred maintenance revenues (*)	44.510.646	66.511.725
Deferred income-long term	44.510.646	66.511.725

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

(**) Deferred revenues regarding the goods sold invoices having shipment date of 2015.

d) Employee benefit obligations:

	December 31, 2014	December 31, 2013
Payable to personnel	9.237.281	10.450.853
Social security premium payables	3.753.058	3.393.459
Taxes and funds payable	4.115.858	5.299.228
Total	17.106.197	19.143.540

e) Other short term liabilities:

	December 31, 2014	December 31, 2013
Taxes and funds payables	1.544.485	827.468
Deferred special consumption tax	92.889	447.325
Other	388.029	340.654
Total	2.025.403	1.615.447

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18. Shareholders' equity

Share Capital

As of December 31, 2014 and 2013, the principal shareholders and their respective shareholding percentages are as follows:

Shareholders	December 31, 2014		December 31, 2013	
	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.

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

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

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

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18. Shareholders' equity (continued)

As of December 31, 2014, in the financial statements of the Company prepared in accordance with financial reporting standards published by Capital Markets Board net income of the year and prior year profits including other reserves to be distributed as dividend is TL 72.771.198 (December 31, 2013 – TL 96.561.743) and TL 61.119.856 (December 31, 2013 – TL 74.438.113), respectively. Current year net income of the Company in statutory books is TL 48.745.799 (December 31, 2013 – TL 201.282.157), other reserves to be distributed as dividend (without being subject to additional taxation) is TL 170.262.048 (December 31, 2013 – TL 79.228.287). In addition, in statutory books there is TL 16.224.790 inflation adjustment and TL 14.170.387 other capital reserves that are subject to taxation if they are distributed. After deduction of first legal reserves, current year net profit in statutory books is TL 48.745.799 (December 31, 2013 – TL 201.282.157). As of report date, there is no decision of dividend distribution related to 2014.

In accordance with the Communiqué, as of December 31, 2014 and December 31, 2013, the details of equity, based on which the dividend will be distributed is as follows:

	December 31, 2014	December 31, 2013
Paid-in share capital	24.000.000	24.000.000
Inflation adjustment on equity items	52.743.030	52.743.030
Restricted reserves	38.958.147	29.078.147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(5.264.855)	(3.551.453)
Retained earnings		
- Extraordinary reserves	50.169.773	63.488.030
- Inflation adjustments on legal reserves	10.950.083	10.950.083
Net income for the year	72.771.198	96.561.743
Total shareholders' equity	244.327.376	273.269.580

As of December 31, 2014 and 2013, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

	December 31, 2014		
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	38.958.147	10.950.083	49.908.230
Total	62.958.147	63.693.113	126.651.260
	December 31, 2013		
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	29.078.147	10.950.083	40.028.230
Total	53.078.147	63.693.113	116.771.260

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18. Shareholders' equity (continued)

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

	December 31, 2014	December 31, 2013
Legal reserves	38.958.147	29.078.147
Extraordinary reserves	170.262.048	79.228.287
Total	209.220.195	108.306.434

Dividends distributed during the year based on previous year's net income per statutory financial statements

100.000.000 64.000.000

Dividend paid per share (kuruş) 0,417 0,267

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

19. Sales and cost of sales

Net sales

	January 1 – December 31, 2014	January 1 – December 31, 2013
Domestic sales	996.239.221	1.176.612.836
Export sales	237.408.664	225.504.622
Gross sales	1.233.647.885	1.402.117.458
Less: sales discounts and sales returns	(2.014.113)	(564.524)
Net sales	1.231.633.772	1.401.552.934

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

	January 1 – December 31, 2014	January 1 – December 31, 2013
Commercial vehicle	584.579.551	789.456.300
Armoured vehicle	368.352.294	349.489.205
Other sales (*)	278.701.927	262.607.429
	1.231.633.772	1.401.552.934

(*) TL 173.638.752 of this amount is related to revenues of uncompleted contracts (2013 – TL 151.849.248).

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19. Sales and cost of sales (continued)

Cost of sales

	January 1 – December 31, 2014	January 1 – December 31, 2013
Cost of finished goods sold	866.659.479	1.031.647.409
Cost of merchandise sold	52.868.921	54.894.650
Cost of sales	919.528.400	1.086.542.059

20. Research and development expenses, marketing, sales and distribution expenses, general administrative expenses

	January 1 – December 31, 2014	January 1 – December 31, 2013
Marketing, sales and distribution expenses	132.494.804	118.705.403
General administrative expenses	39.819.107	38.480.120
Research and development expenses	28.658.352	25.796.799
Total operating expenses	200.972.263	182.982.322

21. Expenses by nature

	December 31, 2014	December 31, 2013
Cost of raw material and consumption goods	738.218.024	868.105.029
Change in finished goods and work-in-process	(3.488.671)	24.895.539
Cost of merchandises sold	52.868.921	54.894.650
Depreciation and amortization expense	43.787.623	38.245.632
Personnel expenses	140.876.679	142.885.391
Operational expenses	28.590.764	25.407.956
Administrative expenses	28.263.200	26.171.566
Warranty reserve expense (Note 15)	23.001.911	28.233.403
Exhibition and fair expenses	8.600.627	7.822.089
Transportation, distribution and storage expenses	12.703.060	10.465.057
Advertisement and promotion expenses	2.463.092	2.118.237
Provisions of impairment for inventories (Note 10)	190.285	(311.216)
Other expenses	44.425.148	40.591.048
Total	1.120.500.663	1.269.524.381

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21. Expenses by nature (continued)

The breakdown of personnel expenses is as follows:

	January 1 – December 31, 2014	January 1 – December 31, 2013
With respect to the account:		
Cost of sales and inventories on hand	72.274.288	79.297.998
Costs related to uncompleted contracts	22.150.288	19.791.207
Capitalized development expenditures	21.512.662	20.035.036
General administrative expenses	19.287.015	19.295.905
Marketing, sales and distribution expenses	25.941.164	22.305.499
Research and development expenses	1.223.925	2.194.781
	162.389.342	162.920.426
By nature:		
Wages and salaries	117.961.866	122.502.421
Social security premiums	21.100.702	20.613.487
Other social benefits	16.163.593	15.335.354
Provision for retirement pay liability (Note 16)	6.224.424	3.340.044
Provision for vacation pay liability (Note 16)	938.757	1.129.120
	162.389.342	162.920.426

22. Other operating income / expenses

	January 1 – December 31, 2014	January 1 – December 31, 2013
Other operating income		
Foreign exchange gain from trade receivable/ payables	40.947.942	73.320.858
Forward transaction income	20.631.246	11.860.256
Maturity difference income	17.822.903	11.250.490
Incentive income	1.165.442	839.682
Other	6.633.435	4.061.522
Total	87.200.968	101.332.808
	January 1 – December 31, 2014	January 1 – December 31, 2013
Other operating expense		
Foreign exchange loss from trade receivable/ payables	(63.369.553)	(41.765.324)
Forward transaction expenses	(9.163.505)	(31.085.765)
Provision for doubtful receivables	(565.838)	(2.309.088)
Provision for foundation employer's share of social security premium	(2.925.000)	-
Other	(391.234)	(213.956)
Total	(76.415.130)	(75.374.133)

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23. Financial income

	January 1 – December 31, 2014	January 1 – December 31, 2013
Interest income from time deposits	1.461.384	322.326
Foreign exchange gains on deposits	3.267.519	2.443.596
Foreign exchange gains on bank borrowings	9.738.700	242.000
Total	14.467.603	3.007.922

24. Financial expense

	January 1 – December 31, 2014	January 1 – December 31, 2013
Interest expense on bank borrowings	(42.069.785)	(33.686.402)
Foreign exchange losses on deposits	(2.981.715)	(5.771.626)
Foreign exchange losses on bank borrowings	(9.607.100)	(13.595.300)
Total	(54.658.600)	(53.053.328)

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% (2013 - 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.

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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 2014 and 2013.

As a result of its research and development expenditures made in 2014 amounting to TL 35.561.875 (2013 – TL 40.528.378), the Company has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

As of December 31, 2014 and 2013, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	December 31, 2014	December 31, 2013
Income tax payable	4.642.432	43.641.898
(-) Prepaid tax	(6.749.150)	(36.598.851)
Income tax payable/ (receivable), net	(2.106.718)	7.043.047

The breakdown of total tax expense for the years ended December 31, 2014 and 2013

	January 1 – December 31, 2014	January 1 – December 31, 2013
Current tax charge	(4.581.854)	(43.676.005)
Deferred tax income		
Tax charged to profit for the period	(4.430.796)	31.989.428
Tax charged to other comprehensive income/expense	428.350	256.256
Total tax expense	(8.584.300)	(11.430.321)

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

	January 1 – December 31, 2014	January 1 – December 31, 2013
Profit before tax	81.783.848	108.248.320
Income tax charge at effective tax rate 20%	(16.356.770)	(21.649.664)
Effect of exemptions and incentives	7.480.147	9.377.679
Other differences	(136.027)	585.408
Total tax expense	(9.012.650)	(11.686.577)

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25. Tax assets and liabilities (continued)

As of December 31, 2014 and 2013, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative		Deferred tax	
	temporary differences		assets/(liability)	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Property, plant and equipment	(10.686.872)	(12.975.519)	1.343.920	886.191
Intangibles	(24.037.595)	(20.553.326)	(4.807.519)	(4.110.665)
Deferred financial expense	(483.877)	(501.791)	(96.775)	(100.358)
Inventories	1.549.110	1.373.503	309.822	274.701
Warranty provision	22.615.088	25.256.158	4.523.018	5.051.232
Reserve for retirement pay	20.969.191	16.173.142	4.193.838	3.234.628
Deferred financial income	14.148.535	18.051.122	2.829.707	3.610.224
Other provisions	9.358.416	6.948.144	1.871.684	1.389.629
Deferred maintenance income	63.888.855	86.685.481	12.777.771	17.337.095
Adjustment for percentage of completion method on construction projects	73.915.663	71.706.219	14.783.133	14.341.244
Other	8.034.875	7.120.489	1.606.975	1.424.099
Deferred tax asset			39.335.574	43.338.020

The movement of deferred tax asset for the years ended December 31, 2014 and 2013 is as follows:

	December 31, 2014	December 31, 2013
January 1	43.338.020	11.092.336
Deferred tax income		
Tax charged to profit for the period	(4.430.796)	31.989.428
Tax charged to other comprehensive income/expense	428.350	256.256
	39.335.574	43.338.020

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 year concerned.

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

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

	December 31, 2014	December 31, 2013
Net income attributable to shareholders (TL)	72.771.198	96.561.743
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (kuruş)	0,303	0,402

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27. Related party disclosures

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

(i) Due from and due to related party balances as of December 31, 2014 and December 31, 2013:

Due from related parties	December 31, 2014	December 31, 2013
Ram Dış Ticaret A.Ş. (1) (*)	38.705.221	63.946.381
Otokar Europe SAS (3)	11.434.239	6.566.672
Ford Otosan A.Ş. (2)	731.483	32.773
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	7.029	740.510
Aygaz A.Ş. (1)	-	73.609
Koç Üniversitesi (1)	-	12.850
Other (1)	-	1.254
Total	50.877.972	71.374.049

(*) 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.

Due to related parties	December 31, 2014	December 31, 2013
Ram Dış Ticaret A.Ş. (1)	3.472.371	6.691.466
Zer Merkezi Hizmetler A.Ş. (1)	2.347.607	2.273.182
Koç Holding A.Ş. (2)	1.571.510	74.846
Setur Servis Turistik A.Ş. (1)	464.983	732.046
Opet Fuchs Madeni Yağ A.Ş. (1)	408.031	280.439
Eltek Elek.Enerji İth.İhr.Top.Tic.A.Ş. (1)	392.345	372.365
Divan Turizm İşletmeleri A.Ş. (1)	356.386	1.124
Ram Sigorta Arac.Hz.A.Ş.(1)	342.279	202.176
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	313.039	1.573.987
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	223.877	235.919
Akpa Dayanıklı Tük.Paz.A.Ş.(1)	200.402	271.553
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	104.849	-
Opet Petrolcülük A.Ş. (1)	84.853	91.401
Koçtaş Yapı Marketleri A.Ş. (1)	24.140	353.820
Other (1)	13.865	213
Total	10.320.537	13.154.537

(1) Related parties of parent company

(2) Shareholder

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
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27. Related party disclosures (continued)

ii) Major sales and purchase transactions with related parties:

Product sales and service revenue	January 1 – December 31, 2014	January 1 – December 31, 2013
Ram Dış Ticaret A.Ş. (1) (*)	168.169.474	186.982.566
Otokar Europe SAS (3)	20.934.006	10.381.427
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	5.329.327	7.705.890
Ford Otosan A.Ş.(2)	180.456	785
Aygaz A.Ş. (1)	93.938	563.274
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	551	128.000
RMK Marine (1)	485	257
Arçelik A.Ş. (1)	-	122.850
Yapı veKredi Bankası A.Ş.(1)	-	1.050.000
Total	194.708.237	206.935.049

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

Purchase of property, plant and equipment	January 1 – December 31, 2014	January 1 – December 31, 2013
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.451.331	3.114.231
Zer Merkezi Hizmetler A.Ş. (1)	415.419	42.534
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	65.563	237.371
Arçelik A.Ş. (1)	29.481	14.508
Koçtaş Yapı Marketleri A.Ş. (1)	14.831	123.955
Ark İnşaat A.Ş.(1)	-	695.039
Total	1.976.625	4.227.638

Inventory purchased	January 1 – December 31, 2014	January 1 – December 31, 2013
Zer Merkezi Hizmetler A.Ş. (1)	15.982.698	15.965.345
Ram Dış Ticaret A.Ş. (1)	3.764.118	12.169.043
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	2.557.507	3.866.486
Opet Fuchs Madeni Yağ A.Ş. (1)	2.110.127	1.684.629
Opet Petrolcülük A.Ş. (1)	1.929.808	1.645.668
Koçtaş Yapı Marketleri A.Ş. (1)	659.433	1.613.674
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	342.036	551.629
Ford Otosan A.Ş.(2)	38.091	-
Arçelik A.Ş. (1)	6.255	8.908
Total	27.390.073	37.505.382

(1) Related parties of parent company

(2) Shareholder

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
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27. Related party disclosures (continued)

Services purchased	January 1 – December 31, 2014	January 1 – December 31, 2013
Ram Dış Ticaret A.Ş. (1)	9.303.902	8.311.633
Setur Servis Turistik A.Ş. (1)	4.478.977	5.695.965
Eltek Elek.Enerji İth.İhr.Top.Tic.A.Ş. (1)	4.003.560	3.310.214
Koç Holding A.Ş. (2)	3.778.564	2.026.246
Otokar Europe SAS (3)	3.110.024	2.559.423
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	1.943.049	1.277.242
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.026.339	966.033
Divan Turizm İşletmeleri A.Ş. (1)	352.158	84.994
Koç Üniversitesi (1)	170.738	182.248
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	164.704	88.760
Vehbi Koç Vakfı Amerikan Hastanesi (1)	76.473	37.621
Koç Topluluğu Spor Kul. Der. İkt. İşl. (1)	32.147	-
Tanı Pazarlama ve İletişim Hizmetleri A.Ş. (1)	29.852	27.687
Ram Sigorta Aracılık Hz. A.Ş. (1) (*)	10.882	51.773
Other (1)	6.676	283.963
Total	28.488.045	24.903.802

(*) It includes paid and accrued premium as of December 31, 2014 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Bank deposits	December 31, 2014	December 31, 2013
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	78.461	1.680.822
- Time deposits	1.353.000	2.750.000
Total	1.431.461	4.430.822

Checks and notes in collection	December 31, 2014	December 31, 2013
Yapı ve Kredi Bankası A.Ş. (1)	24.644.202	33.393.531
Total	24.644.202	33.393.531

1) Related parties of parent company

(2) Shareholder

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)

27. Related party disclosures (continued)

	January 1 – December 31, 2014	January 1 – December 31, 2013
Borrowings		
Yapı ve Kredi Bankası A.Ş. (1)	122.670.359	47.093.434
Total	122.670.359	47.093.434

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

	January 1 – December 31, 2014	January 1 – December 31, 2013
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	227.077	253.108
Total	227.077	253.108

	January 1 – December 31, 2014	January 1 – December 31, 2013
Foreign exchange gains		
Yapı ve Kredi Bankası A.Ş. (1)	10.816.751	743.129
Total	10.816.751	743.129

	January 1 – December 31, 2014	January 1 – December 31, 2013
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	5.308.650	867.470
Total	5.308.650	867.470

	January 1 – December 31, 2014	January 1 – December 31, 2013
Foreign exchange loss		
Yapı ve Kredi Bankası A.Ş. (1)	7.827.910	6.846.590
Total	7.827.910	6.846.590

(1) Related parties of parent company

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)

27. Related party disclosures (continued)

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

	January 1 – December 31, 2014	January 1 – December 31, 2013
Exchange gain from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	11.631.730	3.889.529
Otokar Europe SAS (3)	800.030	257.949
Other (1)	10.852	2.331
Total	12.442.612	4.149.809
Exchange loss from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	2.561.864	1.602.397
Otokar Europe SAS (3)	199.283	4.568
Other (1)	30.360	12.289
Total	2.791.507	1.619.254

(1) Related parties of the parent Company

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

Benefits provided to executives

Salaries and similar benefits provided to the executive management by the Company for the year ended December 31, 2014 amounted to TL 9.867.303 (2013 - TL 11.649.528). Executives are composed of board of directors members, general manager and assistants of general manager.

28. Nature and level of risks arising from financial instruments

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

Credit risk

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)

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

December 31, 2014	Receivables			
	Trade receivables	Other receivables(3)	Bank deposits	Derivative instruments
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	408.485.440	76.075.085	42.967.435	-
- Maximum risk secured by guarantee (2)	(148.988.470)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	404.379.148	76.075.085	42.967.435	-
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-
C. Net book value of assets overdue but not impaired	174.328	-	-	-
D. Net book value of impaired assets	3.931.964	-	-	-
- Overdue (gross book value)	26.458.736	-	-	-
- Impairment (-) (Note 8)	(22.526.772)	-	-	-
- Net value under guarantee	3.931.964	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

December 31, 2013	Receivables			
	Trade receivables	Other receivables(3)	Bank deposits	Derivative instruments
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	592.159.191	70.180.242	5.992.822	-
- Maximum risk secured by guarantee (2)	(133.604.494)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	589.412.307	70.180.242	5.992.822	-
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	275.818	-	-	-
D. Net book value of impaired assets	2.471.066	-	-	-
- Overdue (gross book value)	24.432.188	-	-	-
- Impairment (-) (Note 8)	(21.961.122)	-	-	-
- Net value under guarantee	2.471.066	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

- (1) Guarantees received and factors increasing the loan reliability are not considered when determining this amount.
(2) Guarantees consist of guarantee notes, guarantee checks, mortgages and car pledges received from customers.
(3) The major amount of other receivables consists of advances given.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)

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

Liquidity risk

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

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

As of December 31, 2014 and December 31, 2013, maturities of gross trade payables and financial liabilities are as follows:

December 31, 2014

Maturities per agreements	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	349.514.348	379.331.017	46.772.914	45.676.425	286.881.678	-
Trade payables	81.512.930	82.003.959	81.779.259	224.700	-	-
<hr/>						
Expected maturities	Book value	Total expected cash outflow (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Employee benefit obligations	17.106.197	17.106.197	17.106.197	-	-	-
Other payables	16.383.024	16.383.024	16.383.024	-	-	-
Other short term liabilities	2.025.403	2.025.403	2.025.403	-	-	-
<hr/>						
Expected maturities (or maturities per agreement)	Book value	Total cash outflow expected / per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Derivative financial liabilities (net)						
Derivative cash inflows	139.674.568	139.674.568	139.674.568	-	-	-
Derivative cash outflows	(137.947.680)	(137.947.680)	(137.947.680)	-	-	-

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements
as of December 31, 2014 (continued)
(Currency –Turkish Lira (TL) unless otherwise indicated)

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

December 31, 2013

Maturities per agreements	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	473.011.272	529.670.314	110.194.540	58.582.085	360.893.689	
Trade payables	102.434.509	102.936.822	102.733.952	202.870	-	-

Expected maturities	Book value	Total expected cash outflow (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Employee benefit obligations	19.143.540	19.143.540	19.143.540	-	-	-
Other payables	10.819.100	10.819.100	10.819.100	-	-	-
Other current liabilities	1.615.447	1.615.447	1.615.447	-	-	-

Expected maturities (or maturities per agreement)	Book value	Total cash outflow expected / per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Derivative financial liabilities (net)	(1.231.950)	(1.231.950)	(1.231.950)	-	-	-
Derivative cash inflows	168.937.315	168.937.315	168.937.315	-	-	-
Derivative cash outflows	(170.169.265)	(170.169.265)	(170.169.265)	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

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

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

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

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

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

Table of foreign currency position					
December 31, 2013					
	TL equivalent (functional currency)	USD	EUR	GBP	
1.	Trade receivables	242.862.263	15.865.101	70.938.481	196.654
2a.	Monetary financial assets (including cash, bank accounts)	76.038.246	31.703.749	2.844.479	5.731
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	Current assets (1+2+3)	318.900.509	47.568.850	73.782.960	202.385
5.	Trade receivables	192.938.324	-	65.703.499	-
6a.	Monetary financial assets	93.597.289	43.853.858	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets (5+6+7)	286.535.613	43.853.858	65.703.499	-
9.	Total assets(4+8)	605.436.122	91.422.708	139.486.459	202.385
10.	Trade payables	(27.457.608)	(8.662.260)	(2.582.391)	(394.873)
11.	Financial liabilities	(106.228.231)	-	(36.175.117)	-
12a.	Monetary other liabilities	(340.701.500)	(159.450.691)	(131.412)	-
12b.	Non-monetary other liabilities	(20.173.756)	-	(6.870.000)	-
13.	Current liabilities (10+11+12)	(494.561.095)	(168.112.951)	(45.758.920)	(394.873)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(44.408.262)	-	(15.122.854)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(66.511.725)	-	(22.650.000)	-
17.	Non-current liabilities (14+15+16)	(110.919.987)	-	(37.772.854)	-
18.	Total liabilities (13+17)	(605.481.082)	(168.112.951)	(83.531.774)	(394.873)
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(1.231.950)	79.222.719	(58.000.000)	-
19a.	Hedged total assets amount	169.085.050	79.222.719	-	-
19b.	Hedged total liabilities amount	(170.317.000)	-	(58.000.000)	-
20.	Net foreign currency asset/(liability) position (9+18+19)	(1.276.910)	2.532.476	(2.045.315)	(192.488)
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	86.640.521	(76.690.243)	85.474.685	(192.488)
22.	Total fair value of financial instruments used for foreign currency hedging	(1.231.950)	79.222.719	(58.000.000)	-
23.	Export	225.652.738	64.453.906	39.423.455	1.618.704
24.	Import	440.309.632	104.713.654	87.221.937	7.297.100

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Company's income before tax as of December 31, 2014 and 2013:

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

Exchange rate sensitivity analysis table		
December 31, 2013		
	Profit before tax	Profit before tax
	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	540.506	(540.506)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	540.506	(540.506)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	(600.607)	600.607
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(600.607)	600.607
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(67.590)	67.590
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(67.590)	67.590
Total (3+6+9)	(127.691)	127.691

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

b) Interest position table and related sensitivity analysis

Interest rate risk

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

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

As of December 31, 2014 and 2013, the financial liabilities of the Company are consisted of fixed rate bank borrowings.

Capital risk management

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

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

	December 31, 2014	December 31, 2013
Total financial debt	349.514.348	473.011.272
Less: Cash and cash equivalents (Note 4)	(44.527.697)	(8.884.174)
Net financial debt	304.986.651	464.127.098
Total equity	244.327.376	273.269.580
Financial debt/shareholders' equity factor	125%	170%

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29. Financial instruments

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

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

The following table presents the Company's assets that are measured at fair value at December 31, 2014 and 2013:

Assets	Level 1	Level 2	Level 3	Total
December 31, 2014				
Derivative financial instruments	-	1.726.888	-	1.726.888
Total	-	1.726.888	-	1.726.888

Liabilities	Level 1	Level 2	Level 3	Total
December 31, 2013				
Derivative financial instruments	-	1.231.950	-	1.231.950
Total	-	1.231.950	-	1.231.950

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

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Company considers that carrying amounts reflect fair values of the financial instruments.

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

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

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30. Subsequent events

None.

31. Other matters which are significant to the financial statements or which should be disclosed for the purpose of true and fair interpretation of the financial statements

None.