

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019**

(ORIGINALLY ISSUED IN TURKISH)

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

INDEPENDENT AUDITOR’S REPORT

To the General Assembly of Otokar Otomotiv ve Savunma Sanayi A.Ş.

A. Audit of the consolidated financial statements

1. Our opinion

We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) which comprise the consolidated balance sheet as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements comprising a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (“TFRS”).

2. Basis for opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the “SIA”) that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the “POA”). Our responsibilities under these standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the “Ethical Rules”) and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key Audit Matters</i>	<i>How audit matters are handled</i>
<p><i>Warranty Expense Provision</i></p> <p>As explained in Note 15, the Group has warranty provision amounting to TRY77.9 million as of 31 December 2019.</p> <p>The Group calculates warranty provisions for possible future claims, maintenance and repair expenses in the following years for products sold in the current year. Warranty provisions are calculated based on the remaining warranty period per vehicle and the warranty expense per vehicle estimated using the previous years' data.</p> <p>We focused on this matter during our audit for the reasons below:</p> <ol style="list-style-type: none"> the amount of the warranty provision balance is material in the consolidated financial statements the warranty provision is calculated per vehicle, depending on certain assumptions such as the probable warranty claims per vehicle and foreign exchange rates. Changes in such assumptions may affect the consolidated financial statements. 	<p>We performed the following audit procedures to test the reasonableness of the warranty provision:</p> <ul style="list-style-type: none"> - We tested the controls related to reviewing and approving the Group's assumptions in establishing the accounting estimates used. - We tested the remaining warranty period per vehicle as follows: <ul style="list-style-type: none"> - Group management provided us with the warranty expense provision calculation. We checked the number of vehicles sold subject to the warranty calculation and tested the invoices of the vehicles sold in the current period by using the sampling method. - We tested the mathematical accuracy of the remaining warranty period calculated for each vehicle sold by recalculation.

3. Key audit matters (Continued)

<i>Key Audit Matters</i>	<i>How audit matters are handled</i>
	<ul style="list-style-type: none">- We tested the warranty provision per vehicle estimated using the current and previous years' actual warranty expenses as stated below:- We compared the consistency of the actual warranty expenses with the Group management's past estimations and assumptions.- The Group calculates the current year's warranty expense provision per vehicle in hard currency based on the actual warranty expenses realized in the current and previous periods taking into consideration the changes in the foreign exchange rate. We assessed the reasonableness of the warranty expense provision taking into account the actual warranty expenses and fluctuations in the foreign exchange rate and compared this amount with the warranty expense provision calculated by the Group.- We tested the Group's actual warranty provision expenses for the current period using by sampling method.

3. Key audit matters (Continued)

Key audit matters	How audit matters are handled
<p><i>Application of TFRS 16, “Leases” and its impacts on the consolidated financial statements and notes to the consolidated financial statements</i></p> <p>TFRS 16, “Leases” (“TFRS 16”) is effective for periods beginning on or after 1 January 2019. The application of the new standard resulted in the recognition of right of use assets amounting to TL 23.3 million and increase in financial lease liabilities amounting to TL 23.4 million. The Group has preferred the simplified transition method in the first time adoption of TFRS 16 and has not restated comparative consolidated financial statements.</p> <p>The amounts recognized as a result of the adoption of TFRS 16 are significant for the consolidated financial statements and the determination of the accounting policy requires the assessment of the Group management. In addition, the measurement of the right of use assets and financial lease liabilities are based on significant estimates and assumptions of the management. The substantial part of these estimates are interest rates used to discount cash flows and assessment of options to extend or terminate lease contracts. Nevertheless, the notes to the consolidated financial statements of the Group as of 31 December 2019 are significantly affected by the application of TFRS 16.</p> <p>Therefore, the impacts of the first time adoption of TFRS 16 on the consolidated financial statements and the notes to the consolidated financial statements are determined as a key audit matter for our audit.</p> <p>Please refer to notes 2.3.1, 6 and 12 to the consolidated financial statements for the amounts and disclosures, including the related accounting policies.</p>	<p>We performed the following procedures in relation to the application of TFRS 16, the impacts of the consolidated financial statements and notes to the consolidated financial statements:</p> <ul style="list-style-type: none"> • Understanding and evaluating the significant processes affecting financial reporting related to the adoption of TFRS 16, • Inquiring with the Group management and understanding their assessment regarding the transition process to TFRS 16 and assessing the compliance of their assessment with the transition rules of the standard, • Evaluating the completeness of the contract lists obtained from the Group management, assessment of selected contracts whether they are a service or lease contract and evaluating whether the contracts defined by the Group as leases are in scope of TFRS 16, • Evaluating the contracts are defined by Group as lease contracts whether they are in the scope of TFRS 16, • Evaluating the compliance of the simplified transition method applied by the Group in the transition period to the provisions related to transition, • Recalculation of the right of use assets and related financial lease liabilities recognised in the consolidated financial statements by using rates such as interest rate, rent increase rate etc. for the selected lease contracts that are in scope of TFRS 16, • Selecting the lease contracts used in the calculation of right of use assets and financial lease liabilities on a sample basis and testing the compliance of the term of the lease contracts and the assessment of the extension options applied if such options exist with the provision of the contract, • Testing the disclosures in the consolidated financial statements in relation to the application of TFRS 16 and evaluating the adequacy of such disclosures.

4. Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

5. Auditor's responsibilities for the audit of the consolidated financial statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other responsibilities arising from regulatory requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code (“TCC”) No. 6102 and that causes us to believe that the Company’s bookkeeping activities concerning the period from 1 January to 31 December 2019 period are not in compliance with the TCC and provisions of the Company’s articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor’s report on the early risk identification system and committee was submitted to the Company’s Board of Directors on 5 February 2020.

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

Beste Ortaç, SMMM
Partner

Istanbul, 5 February 2020

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019**

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018

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

	Notes	(Audited) 31 December 2019	(Audited) 31 December 2018
Assets			
Current assets			
Cash and cash equivalents	4	222,722	173,017
Trade receivables	8	896,618	870,457
<i>Due from related parties</i>	27	219,900	399,044
<i>Due from third parties</i>	8	676,718	471,413
Other receivables		470	304
Inventories	10	768,185	690,013
Derivative financial instruments	7	-	297
Prepaid expenses	17	8,646	7,470
Other current assets	17	46,003	60,923
Total current assets		1,942,644	1,802,481
Non-current assets			
Trade receivables	8	51,001	7,930
<i>Due from third parties</i>	8	51,001	7,930
Other receivables		874	707
Investments accounted for using the equity method	5	56,162	13,305
Financial investment	11	147	-
Property, plant and equipment, net	12	129,072	107,603
Right of use assets, net	12	23,281	-
Intangible assets, net	13	372,539	280,656
Deferred income tax asset	25	101,997	90,064
Total non-current assets		735,073	500,265
Total assets		2,677,717	2,302,746

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

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018

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

	Notes	(Audited) 31 December 2019	(Audited) 31 December 2018
Liabilities			
Current liabilities			
Short-term borrowings	6	246,400	-
<i>Bank loans</i>		236,856	-
<i>Short-term lease liabilities</i>		9,544	-
Short-term portion of long-term borrowings	6	7,509	207,281
<i>Bank loans</i>		7,509	207,281
Trade payables	8	256,191	269,459
<i>Due to related parties</i>	27	29,731	25,346
<i>Due to third parties</i>	8	226,460	244,113
Derivative financial liabilities	7	1,100	-
Employee benefit obligations	17	38,276	30,344
Other payables	9	46,434	43,292
Obligations arising from customer contracts	17	288,137	196,791
Government grants	14	314	1,283
Short-term provisions	15	147,505	104,281
<i>Provisions for employee benefits</i>	16	12,520	10,443
<i>Other provisions</i>		134,985	93,838
Other current liabilities	17	5,881	15,409
Total current liabilities		1,037,747	868,140
Non-current liabilities			
Long-term borrowings	6	547,940	500,266
<i>Bank loans</i>	6	533,012	500,266
<i>Long-term lease liabilities</i>	6	14,928	-
Government grants	14	1,392	1,124
Long-term provisions	16	48,460	38,235
<i>Provisions for employee benefits</i>	16	48,460	38,235
Obligations arising from customer contracts	17	404,532	505,395
Total non-current liabilities		1,002,324	1,045,020
Total liabilities		2,040,071	1,913,160
Equity			
Paid-in share capital	18	24,000	24,000
Inflation adjustment on share capital	18	52,743	52,743
Restricted reserves	18	73,770	66,678
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	18	(9,741)	(3,586)
<i>Defined benefit plans remeasurement losses</i>	18	(9,741)	(3,586)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		(12,380)	12,997
<i>Currency translation differences</i>		(12,380)	12,997
Retained earnings	18	157,662	72,418
Net profit for the period	18	351,592	164,336
Total equity		637,646	389,586
Total liabilities and equity		2,677,717	2,302,746

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

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE PERIODS**

1 JANUARY - 31 DECEMBER 2019 AND 2018

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

	Notes	(Audited) 1 January - 31 December 2019	(Audited) 1 January - 31 December 2018
Revenue	19	2,430,643	1,678,661
Cost of sales (-)	19	(1,511,592)	(1,085,704)
GROSS PROFIT		919,051	592,957
Marketing expenses (-)	20	(387,524)	(285,053)
General administrative expenses (-)	20	(120,006)	(91,886)
Research and development expenses (-)	20	(59,061)	(50,481)
Other operating income	22	284,663	344,701
Other operating expenses (-)	22	(173,177)	(278,826)
OPERATING PROFIT		463,946	231,412
Income from investing activities		541	-
Expenses from investing activities (-)		-	(2,454)
Share of profit/loss of investments accounted for using the equity method, net	5	39,774	12,182
OPERATING INCOME BEFORE FINANCIAL EXPENSES		504,261	241,140
Financial income	23	34,670	45,891
Financial expense (-)	24	(192,577)	(165,886)
PROFIT BEFORE TAX		346,354	121,145
Tax income/(expense) from continued operations			
Current tax expense (-)	25	(4,960)	(632)
Deferred tax income	25	10,198	43,823
PROFIT FOR THE PERIOD		351,592	164,336
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		(7,890)	1,659
Deferred tax income/(expense)		1,735	(365)
Items that may be reclassified to statement of profit or loss			
Currency translation differences of investments accounted for using the equity method		3,086	1,123
Currency translation differences		(28,463)	9,478
Other comprehensive (losses)/income		(31,532)	11,895
TOTAL COMPREHENSIVE INCOME		320,060	176,231
Earnings per share (Kr)	26	1,465	0,685

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS
1 JANUARY - 31 DECEMBER 2019 AND 2018**

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

					Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss			
		Paid in share capital	Inflation adjustment on share capital	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity
Previous period	Opening balances	24,000	52,743	59,798	(4,880)	2,396	50,074	99,423	283,554
	Transfers	-	-	6,880	-	-	92,543	(99,423)	-
	Impact of the subsidiary that is currently included in consolidation	-	-	-	-	-	(199)	-	(199)
	Dividends paid	-	-	-	-	-	(70,000)	-	(70,000)
	Total comprehensive income	-	-	-	1,294	10,601	-	164,336	176,231
	Closing balances	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336	389,586
Current period	Opening balances	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336	389,586
	Transfers	-	-	7,092	-	-	157,244	(164,336)	-
	Dividends paid	-	-	-	-	-	(72,000)	-	(72,000)
	Total comprehensive income	-	-	-	(6,155)	(25,377)	-	351,592	320,060
	Closing balances	24,000	52,743	73,770	(9,741)	(12,380)	157,662	351,592	637,646

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

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**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS
1 JANUARY - 31 DECEMBER 2019 AND 2018**

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

	Notes	(Audited) 1 January - 31 December 2019	(Audited) 1 January - 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES		424,299	280,354
Net profit for the period		351,592	164,336
Adjustments to reconcile net profit for the period to cash flows from operating activities		278,013	269,107
Depreciation and amortization	12, 13	79,298	60,772
Adjustments in relation to impairment:		7,075	14,805
- Provision for doubtful receivables	8	3,705	9,485
- Provision for inventories	10	3,370	5,320
Adjustments in relation to provision:		118,952	95,600
- Provision for employee benefits		11,834	16,417
- Warranty provision expenses	15, 21	100,090	46,276
- Adjustments for other provisions		7,028	32,907
Adjustments in relation to interest income and expenses:		127,330	116,632
- Interest income on time deposits	23	(1,887)	(3,977)
- Interest expense on borrowings	24	129,217	120,609
Adjustments in relation to unrealised foreign exchange gains and losses		25,737	17,283
Adjustments in relation to fair value gains and losses		(34,826)	(26,099)
- Fair value losses/(gains) on financial derivative instruments		(34,826)	(26,099)
Adjustments for undistributed profits of investments accounted for using equity method		(39,774)	(12,182)
- Adjustments for undistributed profits of joint ventures	5	(39,774)	(12,182)
Adjustments in relation to gains or losses on sales of property, plant and equipment		(541)	2,454
- Gain on sale of property, plant and equipments		(541)	2,454
Adjustment on tax (expense)/income		(5,238)	-
Other adjustments of profit/(loss) reconciliation		-	(158)
Changes in net working capital		(163,176)	(116,166)
Change in trade receivables		(73,105)	(433,074)
Change in due from customers on contract works		-	312,030
Change in inventories		(81,542)	(282,277)
Change in trade payables		(13,268)	207,342
Other changes		4,739	79,813
- Changes in other operating assets		13,411	162,362
- Changes in other operating liabilities		(8,672)	(82,549)
Cash flows from operations		466,429	317,277
Payments in relation to employee benefits	16	(7,422)	(7,059)
Payments in relation to other provisions	15	(65,971)	(55,563)
Deductions/(payments) in relation to income tax		(4,960)	(632)
Other cash collections/(payments)		36,223	26,331
CASH FLOWS FROM INVESTING ACTIVITIES		(183,770)	(130,485)
Proceeds from sale of property, plant and equipment and intangible assets		1,471	(1,351)
-Proceeds from sale of property, plant and equipment		1,471	(1,351)
Cash outflows due to purchase of property, plant and equipment and intangible assets		(185,094)	(129,134)
-Cash outflows due to purchase of property, plant and equipment	12	(36,970)	(19,140)
-Cash outflows due to purchase of intangible assets	13	(148,124)	(109,994)
Other cash inflows/(outflows)		(147)	-
CASH FLOWS FROM FINANCING ACTIVITIES		(162,232)	(200,026)
Cash inflow from to borrowings		1,427,576	1,363,530
- Proceeds from bank borrowings	6	1,427,576	1,363,530
Cash outflow due to repayment of borrowings		(1,391,151)	(1,394,191)
- Repayments of borrowings	6	(1,391,151)	(1,394,191)
Cash outflows on debt payments from leasing agreements		(9,164)	-
Dividends paid		(72,000)	(70,000)
Interest paid		(119,380)	(103,342)
Interest received		1,887	3,977
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		78,297	(50,157)
Effect of currency translation difference on cash and cash equivalents		(28,592)	(5,784)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		49,705	(55,941)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	173,017	228,958
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	222,722	173,017

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

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**NOTES TO CONSOLIDATED YEAR ENDED FINANCIAL STATEMENT
AT 31 DECEMBER 2019**

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

The registered addresses of the Company are as follows:

Headquarters:

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

Plant:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

Subsidiaries	Country	Main activity	Field of activity
Otokar Europe SAS	France	Sales and marketing	Automotive
Otokar Land Systems LLC	United Arab Emirates	Sales and marketing	Automotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Automotive
Otokar Central Asia Limited	Kazakhstan	Sales and marketing	Automotive
Joint Ventures	Country	Main activity	Field of activity
Al Jasoor Heavy Vehicles Industry	United Arab Emirates	Sales and marketing	Automotive

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

Otokar Land Systems has not been subject to consolidation in the prior reporting periods due to immaterial operating activities and it has been accounted under “Financial Investments”. Its operating activities became material and Otokar Land Systems has been included in the consolidation scope as of 1 October 2018.

Europe Filiala Bucuresti S.R.L which is subsidiary of Otokar Europe SAS was established on 28 February 2018 in order to organise export activities in Romania and to increase its international sales especially in this region. Filiala Bucuresti S.R.L. has been included in the scope of consolidation as of 1 October 2018 since its operating activities became material.

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CONSOLIDATED FINANCIAL STATEMENTS
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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**NOTES TO CONSOLIDATED YEAR ENDED FINANCIAL STATEMENT
AT 31 DECEMBER 2019**

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

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

Otokar Central Asia Limited Company was established on 5 November 2019 in Astana International Financial Center (AIFC), a special-status region that accepts the principles of British Law in Kazakhstan, in order to increase its international sales and follow up export activities. Since the financial activities of Otokar Central Asia Limited Company have not started yet, the investment was presented under financial investments in the consolidated financial statements.

The period-end and the average number of personnel employed in the Group are as follows:

	2019		2018	
	Year end	Average	Year end	Average
Total personnel number	1,957	1,994	1,966	2,044

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue and signed by the Board of Directors of Otokar on 5 February 2020. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul A.Ş. ("BIST") since 1995. As of 31 December 2018, 27.85% of the shares are quoted on the BIST.

As of 31 December 2018, 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

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

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

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

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation of consolidated financial statements

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

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

Consolidated financial statements have been presented in accordance with the formats specified in the "Announcement about TMS Taxonomy" published by the UPS on 15 April 2019 and the "Guidelines for Using Financial Statement Examples".

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

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

Functional and presentation currency

Items included in the consolidated financial statements of the Subsidiaries and Joint Ventures of the Group are measured using the currency of the primary economic environment in the entity operates ("the functional currency"). The consolidated financial statements are presented in TRY, which is the Company's functional and presentation currency.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with Turkish Accounting Standards (TAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 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 31 December 2019 and 31 December 2018 have been restated by applying the relevant conversion factors through carrying additions after 31 December 2004 at their nominal values.

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

2.1 Basis of presentation of consolidated financial statements (Continued)

Financial statements of foreign subsidiaries, joint ventures and associates

The assets and liabilities, presented in the financial statements of the foreign subsidiaries and joint ventures prepared in accordance with the Group's accounting policies, are translated into TRY at the exchange rate at the date of the balance sheet whereas income and expenses are translated at the average exchange rates for the respective periods. Exchange differences resulting from using the exchange rates at the balance sheet date and the average exchange rates are recognised in the currency translation differences under the equity.

2.2 Accounting errors and changes in accounting estimates

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

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these consolidated financial statements for the year ended 31 December 2019 are consistent with those used in the preparation of financial statements for the year ended 31 December 2018.

2.3 Changes in accounting policies

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

2.3.1 TFRS 16 "Leases"

The Group has applied accounting policy changes resulting from the first time adoption of "TFRS 16 - Leases" effective from 1 January 2019, in accordance with the transition requirements of the related standard.

The impacts of the accounting policy changes and first time adoption are as follows:

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

2.3 Changes in accounting policies (Continued)

The Group as the lessee

At inception of a contract, the Group assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group considers the following matters when assessing whether the agreement transfers the right to control the use of an identified asset for a limited period of time:

- The contract contains an identified asset: - this may be specified explicitly or implicitly,
- The asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified,
- The Group has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use;,

The Group has the right to manage the use of the defined asset. The Group has the right to manage the use of the asset in the presence of any of the following situations:

- a) The Group has the right to direct use of the asset. The Group concludes to have the right of use, when it is predetermined how and for what purpose the Group will use the asset.
- b) The Group has the right to direct use of asset if either
 - i. The Group has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or
 - ii. The customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use

At the commencement date, the Group recognize a right-of-use asset and a lease liability in financial statements.

Right of use of assets

The cost of the right-of-use asset shall comprise:

- a) The amount of the initial measurement of lease liability,
- b) Any lease payments made at or before the commencement date, less any lease incentives received,
- c) Any initial direct costs incurred by the lessee and
- d) Costs incurred by the Group relating to the restoration of the underlying asset so that it is required by the terms and conditions of the lease (excluding costs incurred for inventory production)

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

2.3 Changes in accounting policies (Continued)

To apply a cost model, the Group measure the right-of-use asset at cost:

- a) Less any accumulated depreciation and any accumulated impairment losses; and
- b) Adjusted for any remeasurement of the lease liability

The Group apply the depreciation requirements in TAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements.

The Group apply TAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Lease liability

At the commencement date, The Group measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group use the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) Fixed payments, less any lease incentives receivable
- b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c) Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, the Group measure the lease liability by:

- a) Increasing the carrying amount to reflect interest on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made and
- c) Remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. The Group reflects the restatement amount of the lease liability to the financial statements as revised in the presence of the right of use.

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

2.3 Changes in accounting policies (Continued)

Extension and termination options

Lease liability is determined considering the extension and termination options in the agreements. The majority of extension and termination options held are by the Group and by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Variable lease payments

Some property leases of the Group contain variable payments. Variable lease payments which are not in TFRS 16 are recognised in profit or loss in the period.

Exemptions and simplifications

Short-term lease payments and payments for leases of low-value assets like IT equipments (mainly printers, laptops and mobile phones etc.) are not included in the measurement of the lease liabilities in the scope of TFRS 16. Lease payments of these contracts are continued to be recognised in profit or loss in the related period. The Group applied a single discount rate to a portfolio of leases which have similar characteristics (asset classes which have similar remaining rent periods in a similar economic environment).

The Group as the leaser

All the leasings of the Group as lessor are operational leasings. For operational leasings, leased assets are classified under investment properties, tangible assets or other current assets in the consolidated balance sheet and rental income is accounted in the consolidated income statement in equal amounts for the leasing period. Rental income is accounted in the consolidated income statement for the leasing period on a straight-line basis

Transition to TFRS 16 “Leases”

The Company applied TFRS 16, “Leases”, which superseded TAS 17, “Leases”, and accounted in the consolidated financial statements by using “cumulative effect method” on the transition date of 1 January 2019. In accordance with the simplified transition method defined in standard, no restatement has been required in the comparative information of the financial statement and has no impact on retained earnings.

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

2.3 Changes in accounting policies (Continued)

On first time adoption of TFRS 16 "Leases", the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of TAS 17 "Leases" before 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of the transition date. The right to use assets are accounted for at an amount equal to the lease obligations (adjusted for the amount of prepaid or accrued lease payments) within the scope of simplified transition application in the related standard.

The reconciliation of the operating lease agreements followed under TAS 17 prior to the first application date and the lease liabilities recognized under TFRS 16 in the financial statements as of 1 January 2019 is as follows:

	1 January 2019
Operating lease commitments within the scope TAS 17	20,548
- Short-term leases (-)	-
- Low-value leases (-)	(71)
- Contracts reassessed as service agreements (-)	-
- Adjustments as a result of a different treatment of extension and termination options	-
Total lease liability recognised under TFRS 16 (non-discounted)	20,477
Total lease liability recognised under TFRS 16 (discounted)	17,855
- Short-term lease liability	7,647
- Long-term lease liability	10,208

The weighted average Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6% for Euro and 25% for TRY.

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

2.3 Changes in accounting policies (Continued)

The details of the right-of-use of assets recognised by each asset type in financial statements as of 31 December 2019 and 1 January 2019 are as follows:

	31 December 2019	1 January 2019
Building	14,033	9,633
Vehicles	8,406	7,801
Furniture and fixtures	842	421
Total right-of-use assets	23,281	17,855

The practical expedients applied in transition

Within the scope of the transition, the following practices defined in TFRS 16 are adopted within the scope of the Company policies.

- The leases which have a lease term of 12 months or less are exempted. Although the rental period is 1 year or less; The Company has an option to extend the lease and is reasonably certain that it will use the extension right option (for example, if there is a significant amount of private cost investment related to the asset subject to the leasing and that the investment has been amortized for more than 1 year). the agreement is included in the scope of TFRS 16.
- Low value leases mainly printer, laptop, mobile phone, etc. information technology equipment) are excluded.
- A single discount rate has been applied to a portfolio of leases with reasonably similar characteristics (such as leases with similar lease term for a similar class of assets in a similar economic environment).

2.3.2 New standards and amendments

a. New standards, amendments and interpretations to existing standards as of 31 December 2019:

- Amendment to TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.

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

2.3 Changes in accounting policies (Continued)

- **Amendment to TAS 28, 'Investments in associates and joint venture'**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- **TFRS 16, 'Leases'**; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- **IFRIC 23, 'Uncertainty over income tax treatments'**; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.
- Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - TFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - TFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - TAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
 - TAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
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2.3 Changes in accounting policies (Continued)

- **Amendments to TAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to
 - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and;
 - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
- b. Standards, amendments and interpretations that are issued but not effective as at 31 December 2019:*
 - **Amendments to TAS 1 and TAS 8 on the definition of material; effective from Annual** periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements', and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:
 - i) use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in TAS 1 about immaterial information.
 - **Amendments to TFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations
 - **Amendments to TFRS 9, TAS 39 and TFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries
 - **TFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features

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

2.3 Changes in accounting policies (Continued)

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements as of 31 December 2019 are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

2.4 Significant accounting judgments and estimates

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

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

- a) 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 31 December 2019, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- b) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle
- c) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.
- d) The Group has made certain assumptions based on experiences of technical personnel in determining impairment for inventories

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
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2.5 Summary of significant accounting policies

Group accounting

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

Subsidiaries

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

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

Disposal of a subsidiary

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

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 31 December 2019 and 2018:

Subsidiaries	2019		2018	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100	100	100	100
Otokar Land Systems LLC	100	100	100	100
Otokar Europe Filiala Bucuresti SRL	100	100	-	-
Otokar Central Asia Limited	100	100	-	-

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

2.5 Summary of significant accounting policies (Continued)

Joint Ventures

Joint Ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by Otokar and one or more other parties. Otokar exercises such joint control through direct and indirect voting rights related to the shares held by itself and/or through the voting rights related to the shares held by Otokar and the companies owned by them. "TFRS 11 Joint Arrangements", effective for the annual periods on or after 1 January 2013, supersedes "TAS 31 Shares in Joint Ventures" and requires the application of the equity method for the consolidation of interests in joint ventures in accordance with "TAS 28 Investments in Associates and Joint Ventures".

Under the equity method, the investment in a joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of the acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions (dividends etc.) received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount are necessary for the change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The table below sets out all joint ventures and shows the direct and indirect ownership and proportion of effective interest of the Group in these joint ventures at 31 December 2019 and 2018:

Joint ventures	2019		2018	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Al Jasoor Heavy Vehicles Industry LLC (*)	49	49	49	49

(*) Al Jasoor Heavy Vehicles Industry LLC, owned 49% of shares by Otokar Land Sytems LLC which is a subsidiary of the Group, was established on 28 May 2017 with the purpose of selling and marketing in the UAE

Revenue recognition

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer

Group recognizes revenue based on the following main principles:

- Identification of customer contracts
- Identification of performance obligations
- Determination of transaction price in the contract
- Allocation of price to performance obligations
- Recognition of revenue when the performance obligations are fulfilled

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

2.5 Summary of significant accounting policies (Continued)

Group recognized revenue from its customers only when all of the following criteria are met:

- (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- (b) Group can identify each party's rights regarding the goods or services to be transferred,
- (c) Group can identify the payment terms for the goods or services to be transferred;
- (d) The contract has commercial substance,
- (e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer

In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

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

Revenue from sale of goods

Group recognizes revenue based on the production and sale of armoured vehicles, bus and minibus. Revenue is recognized when the control of the goods is transferred to the customer. In addition, Group provides legal warranty commitment to its customers depending on the type of goods and the location of sale between 1-2 years. These legal warranty commitments are mandatory by regulations, have not a separate price apart from the good and are not separately sold. Therefore, they are not treated as a separate good or service apart from the sale of good.

Revenue from sale of extended warranty

Group sells extended warranty to its customer for the period after the termination of legal warranty provided for all goods. The price of extended warranty is determined separately from the price of the goods and it is a separate performance obligation in the contract. Therefore, Group treats the service that will be provided due to the sale of extended warranty as a separate performance obligation.

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

2.5 Summary of significant accounting policies (Continued)

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

Inventories

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

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

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

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

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

2.5 Summary of significant accounting policies (Continued)

Property, plant and equipment

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

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

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

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	3-30 years
Machinery and equipment	3-15 years
Vehicles	4-9 years
Furniture and fixtures	5-15 years
Leasehold improvements	5 years

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

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

Intangible assets

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

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2.5 Summary of significant accounting policies (Continued)

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

Research and development expenses

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

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

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

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

2.5 Summary of significant accounting policies (Continued)

Income taxes

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

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

Furthermore, provisional corporate taxes are paid at 22% 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 and liabilities are presented net in the consolidated financial statements.

Provision for employment termination benefits

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

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

2.5 Summary of significant accounting policies (Continued)

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

Foreign currency transactions

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

Provisions

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

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

Contingent liabilities and assets

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

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

Share capital and dividend

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

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

2.5 Summary of significant accounting policies (Continued)

Operational leases

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

Warranty expenses

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

Financial instruments

Financial assets

The Group classifies its financial assets in the following categories: amortised cost and fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Trade receivables and cash and cash equivalents are classified in this category.

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of "derivative instruments" in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative.

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.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
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2.5 Summary of significant accounting policies (Continued)

Trade receivables

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

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

Group may enter into factoring agreement for its trade receivables and the amount provided from factoring companies is recorded as financial liability in the consolidated financial statements.

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

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

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

Group has preferred to apply "simplified approach" defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.

Trade payables

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
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2.5 Summary of significant accounting policies (Continued)

Borrowings

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

Borrowings are recognized initially at proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between the proceeds and redemption value is recognized in the comprehensive income statement over the period of the borrowings.

Derivative financial instruments

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

Impairments in financial assets

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

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

Recognition and derecognition of financial assets and liabilities

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
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2.5 Summary of significant accounting policies (Continued)

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

Foreign currency transactions

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

Earnings per share

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

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

Subsequent events

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

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

Impairment of non-financial assets

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

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

2.5 Summary of significant accounting policies (Continued)

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.

Borrowing costs that are not in this scope are recognised directly in the income statement.

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.

NOTE 3 - SEGMENT REPORTING

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

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

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NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Banks		
- Time deposits	144,016	134,463
- Demand deposits	78,649	37,799
Cheques and notes receivable	-	596
Other	57	159
	222,722	173,017

As of 31 December 2019, TRY62,745 of the total amount of time deposits amounting to TRY144,016 thousand is denominated in foreign currency and the annual effective interest rate is 0.95% and has a maturity of 6 days. The annual effective interest rate of the remaining TRY81,271 thousand is 10.48% and has a maturity of 6 days.

(As of 31 December 2018, TRY120,917 thousand of the total amount of time deposits amounting to TRY134,463 thousand is denominated in foreign currency and the annual effective interest rate is 0.24% and has a maturity of 2 days. The annual effective interest rate of the remaining TRY13,546 thousand is 21.75% and has a maturity of 2 days.)

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

As of 31 December 2019, the Group has restricted bank deposit amounting to TRY0,2 thousand (31 December 2018: TRY450 thousand).

NOTE 5 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The details of carrying value and consolidation rate subject to equity accounting of the joint venture is as follows:

Joint ventures	2019		2018	
	Share(%)	Amount	Share(%)	Amount
Al Jasoore	49	56,162	49	13,305
		56,162		13,305

The movement of the joint venture is as follows:

	2019	2018
1 January	13,305	-
Shares of profit	39,774	12,182
Currency translation differences	3,083	1,123
31 December	56,162	13,305

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NOTE 5 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

The summary of the financial statements of Al Jasoor as of 31 December 2019 is as follows:

	31 December 2019	31 December 2018
Total assets	989,834	1,547,656
Total liabilities	(876,650)	(1,520,502)
Foreign currency translation differences	1,432	-
Net assets	114,616	27,154
Ownership of the Group	49%	49%
Net asset share of the Group	56,162	13,305

NOTE 6 - BORROWINGS

Short-term financial borrowings

31 December 2019	Maturities	Annual effective interest rate (%)	Amount
Bank borrowings			
EUR borrowings	2 January 2020	1.04	139,676
RON borrowings	14 December 2020	5.22	97,180
			236,856
Borrowings from lease liabilities			
EUR lease liabilities	-	6.00	6,802
TRY lease liabilities	-	25.00	2,742
			9,544
Total short-term financial liabilities			246,400

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NOTE 6 - BORROWINGS (Continued)

31 December 2019	Maturities	Annual effective interest rate (%)	Amount
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
TRY borrowings	-	14.15-15.01	6,697
EUR borrowings	-	2.35	812
			7,509

(*) Bearing fixed interest rate

31 December 2019	Maturities	Annual effective interest rate (%)	Amount
Long-term bank loans (*)			
TRY borrowings	1 October 2021 - 3 October 2022	14.15-15.01	400,000
EUR borrowings	20 September 2021	2.35	133,012
			533,012

(*) Bearing fixed interest rate

Borrowings from lease liabilities

	Maturities	Annual effective interest rate (%)	Amount
EUR borrowings	-	6.00	10,639
TRY borrowings	-	25.00	4,289
			14,928

Total long-term financial borrowings **547,940**

31 December 2018	Maturities	Annual effective interest rate (%)	Amount
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
TRY borrowings		14.27-14.44	207,281
			207,281

(*)Bearing fixed interest rate

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NOTE 6 - BORROWINGS (Continued)

31 December 2018	Maturities	Annual effective interest rate (%)	Amount
Long-term bank borrowings(*)			
TRY borrowings	9 March 2020 - 7 January 2021	16.28-33.55	440,000
EUR borrowings	6 January 2020	3.85	60,266
			500,266

(*) Bearing fixed interest rate

As of 31 December 2019, the Group has not provided any guarantees for the borrowings (31 December 2018: None).

The movement of the borrowings for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	707,547	703,658
Borrowing received during the period	1,427,576	1,363,530
Effect of change due to TFRS 16	17,855	-
Cash outflows related to debt payments from leasing agreements	(9,457)	-
Effect of new lease contracts	13,905	-
Principal payments (-)	(1,391,151)	(1,394,191)
Change in interest accruals	9,837	17,267
Change in exchange rates	25,737	17,283
31 December	801,849	707,547

	31 December 2019		31 December 2018	
	Carrying values	Fair values	Carrying values	Fair values
Fixed interest	680,197	702,200	707,547	730,140
Variable interest (*)	97,180	97,180	-	-
	777,377	799,380	707,547	730,140

(*) The fair values of variable interest borrowings converge to their carrying values.

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NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value assets
31 December 2019			
Forward transactions	612,478	9 January 2020 31 January 2020	(1,100)
Short-term derivative financial instruments	612,478		(1,100)
Total derivative financial instruments	612,478		(1,100)

	Contract amount	Current period contract maturity	Fair value assets
31 December 2018			
Forward transactions	940,306	10 January 2019- 7 February 2019	297
Short-term derivative financial instruments	940,306		297
Total derivative financial instruments	940,306		297

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2019	31 December 2018
Trade receivables, net	591,833	426,547
Notes receivables, net	131,586	88,378
	723,419	514,925
Less: provision for doubtful receivables	(46,701)	(43,512)
Short-term trade receivables	676,718	471,413
Trade receivables from related parties (Note 27)	219,900	399,044
Short-term trade receivables	896,618	870,457
Long-term trade receivables, net	51,001	-
Long-term notes receivable, net	-	7,930
Long-term trade receivables	51,001	7,930

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2019, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2018: 60-90 days).

As of 31 December 2019 and 2018, the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibuses and bus sales to dealers and trailer and armored vehicle sales. As of 31 December 2019, the total trade receivable from dealers amounting to TRY92,084 thousand (31 December 2018: TRY59,217 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY92,268 thousand (31 December 2018: TRY59,635 thousand). The Group manages the credit risk of remaining balance in the manner described in the Credit Risk section of Note 28 to the consolidated financial statements.

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

31 December 2019

1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	270
Over 5 years past due	-
	270

Amount secured with guarantees **270**

31 December 2018

1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	255
Over 5 years past due	-
	255

Amount secured with guarantees **255**

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

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The movement of the provision for doubtful receivables for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	43,512	33,985
Collections	(684)	(362)
Currency translation differences	168	404
Exchange differences	3,705	9,485
31 December	46,701	43,512

Trade payables

	31 December 2019	31 December 2018
Trade payables, net	225,948	243,707
Notes payables, net	512	406
Short-term other trade payables	226,460	244,113
Trade payables to related parties (Note 27)	29,731	25,346
Short-term trade payables	256,191	269,459

As of 31 December 2019, average payment term for trade payables is 45-60 days (31 December 2018: 45-60 days).

As of 31 December 2019 and 2018, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other short-term receivables

	31 December 2019	31 December 2018
Due from personnel	362	217
Deposits and guarantees given	108	87
	470	304

Other long-term receivables

	31 December 2019	31 December 2018
Deposits and guarantees given	874	707
	874	707

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NOTE 9 - OTHER RECEIVABLES AND PAYABLES (Continued)

Other short-term payables

	31 December 2019	31 December 2018
Other miscellaneous payables	46,434	43,292
	46,434	43,292

As explained in Note 15, TRY40,725 thousand (31 December 2018: TRY36,169 thousand) of other miscellaneous payables was collected but not credited to statement of profit or loss, since the lawsuit in relation to deductible corporate tax from Research and Development expenses has not been finalised.

NOTE 10 - INVENTORIES

	31 December 2019	31 December 2018
Raw material	229,304	295,244
Semi-finished goods	72,267	23,747
Finished goods	246,131	168,122
Merchandise goods	117,692	111,391
Goods in transit	112,153	97,501
Impairment for inventories (*)	(9,362)	(5,992)
	768,185	690,013

(*) TRY325 thousand of impairment is related to finished goods (31 December 2018: TRY127 thousand) and TRY818 thousand is related to merchandises (31 December 2018: TRY562 thousand). TRY8,219 thousand of impairment (31 December 2018: TRY5,303 thousand) is related to raw materials. The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2019 and 2018 are as follows:

	2019	2018
1 January	(5,992)	(700)
Increase during the period	(3,370)	(5,320)
Reversal of provisions	-	28
31 December	(9,362)	(5,992)

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NOTE 11 - FINANCIAL INVESTMENT

Otokar Central Asia Limited company was established on 5 November 2019 in Astana International Financial Center (AIFC), a special-status region that accepts the principles of British Law in Kazakhstan, in order to increase overseas sales and follow up export activities.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2019 is as follows:

	1 January 2019	Additions	Currency translation differences	Disposal	Transfers	31 December 2019
Cost						
Land	37,457	-	-	(20)	-	37,437
Land improvements	8,583	25	-	-	-	8,608
Buildings	58,489	489	-	-	642	59,620
Machinery and equipment	106,570	5,172	115	(70)	466	112,253
Motor vehicles	9,345	1,226	-	(789)	-	9,782
Furniture and fixtures	38,143	11,300	71	(57)	3,711	53,168
Leasehold improvements	1,089	28	-	-	-	1,117
Construction in areas	4	18,730	-	-	(6,723)	12,011
	259,680	36,970	186	(936)	(1,904)	293,996
Accumulated depreciation						
Land improvements	(4,432)	(298)	-	-	-	(4,730)
Buildings	(44,870)	(2,480)	-	-	-	(47,350)
Machinery and equipment	(81,205)	(5,758)	(91)	66	-	(86,988)
Motor vehicles	(5,483)	(721)	-	178	-	(6,026)
Furniture and fixtures	(15,245)	(3,631)	(49)	15	-	(18,910)
	(842)	(78)	-	-	-	(920)
	(152,077)	(12,966)	(140)	259	-	(164,924)
Net book value	107,603					129,072

There is no mortgage on property, plant and equipment as of 31 December 2019 (31 December 2018: None).

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2018 is as follows:

	1 January 2018	Additions	Currency translation differences	Disposal	Transfers	31 December 2018
Cost						
Land	37,457	-	-	-	-	37,457
Land improvements	12,355	13	-	(3,833)	48	8,583
Buildings	60,729	17	-	(2,368)	111	58,489
Machinery and equipment	110,616	7,953	258	(14,584)	2,327	106,570
Motor vehicles	9,608	1,117	-	(1,380)	-	9,345
Furniture and fixtures	38,938	5,095	105	(9,700)	3,705	38,143
Leasehold improvements	2,131	146	-	(1,188)	-	1,089
Construction in process	1,454	4,799	-	-	(6,249)	4
	273,288	19,140	363	(33,053)	(58)	259,680
Accumulated depreciation						
Land improvements	(7,962)	(303)	-	3,833	-	(4,432)
Buildings	(44,651)	(2,587)	-	2,368	-	(44,870)
Machinery and equipment	(90,556)	(5,046)	(156)	14,553	-	(81,205)
Motor vehicles	(5,403)	(719)	-	639	-	(5,483)
Furniture and fixtures	(21,911)	(2,650)	(80)	9,396	-	(15,245)
	(1,796)	(207)	-	1,161	-	(842)
	(172,279)	(11,512)	(236)	31,950	-	(152,077)
Net book value	101,009					107,603

The allocation of accumulated depreciation and amortisation for the year ended 31 December 2019 and 2018 is as follows:

	2019	2018
Research and development expenses	56,256	47,800
Cost of goods sold	5,995	5,924
Development projects in process	3,048	2,324
General administrative expenses	3,276	2,103
Depreciation on inventories	1,577	1,379
Selling and marketing expenses	959	1,203
Currency translation differences	140	236
Right of use of assets	8,187	-
Costs related to uncompleted contracts	-	39
	79,438	61,008

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Right of use assets

During the year, the Group has capitalized on the right of use assets of TRY31,468. As of 31 December 2019, net book value of the right of use assets is TRY23,281. As of 31 December 2019, assets and accumulated depreciation amounts are as follows:

31 December 2019	Buildings	Motor vehicles	Furniture and fixture	Total
Cost	16,800	13,623	1,045	31,468
Accumulated depreciation	(2,767)	(5,217)	(203)	(8,187)
	14,033	8,406	842	23,281

NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the year ended 31 December 2019 are as follows:

	1 January 2019	Additions	Currency translation differences	Disposals	Transfers	31 December 2019
Cost						
Other intangible assets	18,249	1,881	-	(213)	1,904	21,821
Development costs	427,570	-	-	-	115,039	542,609
Developments projects in progress	92,439	146,243	-	-	(115,039)	123,643
	538,258	148,124		(213)	1,904	688,073
Accumulated amortization						
Other intangible assets	(13,017)	(1,889)	-	213	-	(14,693)
Development costs	(244,585)	(56,256)	-	-	-	(300,841)
	(257,602)					(315,534)
Net book value	280,656	(58,145)		213		372,539

In 2019, the Group has capitalised TRY 8,684 thousand (31 December 2018: TRY 8,008 thousand) of its borrowing costs in relation to its qualifying assets.

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NOTE 13 - INTANGIBLE ASSETS (Continued)

For the year ended 31 December 2018, the movements of intangible assets and related amortization are as follows:

	1 January 2018	Additions	Disposals	Tranfers	31 December 2018
Cost					
Other intangible assets	20,231	2,371	(4,411)	58	18,249
Development costs	345,703	167	-	81,700	427,570
Developments projects in progress	66,683	107,456	-	(81,700)	92,439
	432,617	109,994	(4,411)	58	538,258
Accumulated amortization					
Other intangible assets	(15,965)	(1,463)	4,411	-	(13,017)
Development costs	(196,788)	(47,797)	-	-	(244,585)
	(212,753)	(49,260)	4,411	-	(257,602)
Net book value	219,864				280,656

NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2019	31 December 2018
Short-term	314	1,283
Long-term	1,392	1,124
	1,706	2,407

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

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2019	31 December 2018
Provision for warranty expenses	77,897	43,778
Provision for Employee benefits (Note 16)	12,520	10,443
Other	57,088	50,060
	147,505	104,281

Warranty provision

The Group covers the vehicles it has sold for a period of 2 years. Accordingly, as of the balance sheet date, a provision is provided for the warranty expenses for the vehicles under warranty.

As of 31 December 2019 and 2018, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	2019	2018
1 January	43,778	53,065
Additional provision	100,090	46,276
Claim payments	(65,971)	(55,563)
31 December	77,897	43,778

Commitments and contingencies

As of 31 December 2019 and 2018, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2019	31 December 2018
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,150,067	1,379,859
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	-	-
	1,150,067	1,379,859

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

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

	31 December 2019		31 December 2018	
	Original currency	TRY equivalent	Original currency	TRY equivalent
USD	151,597	900,516	201,235	1,058,679
EUR	22,452	149,317	46,295	279,068
TRY	91,779	91,779	42,112	42,112
Chinese Yuan	10,000	8,455	-	-
		1,150,067		1,379,859

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

	31 December 2019	31 December 2018
Guarantee letters given		
Under secretariat of Ministry of Defense	103,573	251,984
Other (*)	1,046,494	1,127,875
	1,150,067	1,379,859

(*) Other guarantee; consists of guarantees given to third parties for transactions such as public sales, tax office and customs procedures.

Guarantee letters

a) Guarantees given as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Bank letters of guarantee	1,150,067	1,379,859
	1,150,067	1,379,859

b) Guarantees received as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Bank letters of guarantee	245,208	336,045
Guarantee notes	9,974	20,195
Mortgages received	4,020	20
	259,202	356,260

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

Contingent assets

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 and 2015 was concluded in favor of the Group and the same cases is still in progress at appeal phase. The appeal process ended in favor of the Group for 2011-2012-2013. The administration has sent an appeal to the Council of State to appeal the decision in favor of the Group and the appeal stage continues. The appeal process is still in progress for 2014-2015.

NOTE 16 - EMPLOYEE BENEFITS

	31 December 2019	31 December 2018
Provision for employment termination benefits	48,460	38,235
Provision for unused vacation	12,520	10,443
	60,980	48,678

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TRY6,379.86 in full for each year of service as of 31 December 2019 (31 December 2018: TRY5,434.42 in full).

The reserve for employment termination benefits is not legally subject to any funding and there are no funding requirements.

Provision for employment termination benefits is calculated by estimating the present value of the probable obligation that the employees will have to pay in case of retirement.

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 real rate free of expected effects of inflation. The termination indemnity ceiling is revised semi-annually and the ceiling amounting to TRY6,730.15 in full (1 January 2019: TRY6,017.60 in full), which is effective from 1 January 2020, has been taken into consideration in calculation of retirement benefit provision in the consulate.

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

	31 December 2019	31 December 2018
Net discount rate (%)	4.67	5.65
Turnover rate to estimate the probability of retirement (%)	97.66	96.76

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

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

	2019	2018
1 January	38,235	31,693
Interest expense	3,460	2,868
Charge for the period	6,297	12,392
Remeasurement differences	7,890	(1,659)
Payments	(7,422)	(7,059)
31 December	48,460	38,235

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2019	2018
1 January	10,443	9,286
Charge for the period, net (Note 21)	2,077	1,157
31 December	12,520	10,443

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

a) Prepaid expenses

	31 December 2019	31 December 2018
Prepaid expenses	8,646	7,470
	8,646	7,470

b) Other current assets

	31 December 2019	31 December 2018
Value added tax receivables	45,040	57,546
Other	963	3,377
	46,003	60,923

c) Deferred revenues – short-term

	31 December 2019	31 December 2018
Advances received	266,602	191,607
Deferred maintenance revenues	21,535	5,184
	288,137	196,791

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

Deferred revenues – long-term	31 December 2019	31 December 2018
Advance received	273,347	469,884
Deferred maintenance revenues	131,185	35,511
	404,532	505,395

d) Employee benefits obligation

	31 December 2019	31 December 2018
Payables to employees	18,543	14,520
Social security payables	10,034	8,014
Taxes and funds payable	9,699	7,810
	38,276	30,344

e) Other current liabilities

	31 December 2019	31 December 2018
Taxes and funds payable	3,700	13,688
Deferred special consumption tax	1,064	911
Payables to shareholders	318	105
Other	799	705
	5,881	15,409

NOTE 18 - EQUITY

Share capital

As of 31 December 2019 and 2018, the principal shareholders and their respective shareholding percentages are as follows

	31 December 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Koç Holding A.Ş.	10,723	44.68	10,723	44.68
Ünver Holding A.Ş.	5,955	24.81	5,955	24.81
Other	7,322	30.51	7,322	30.51
	24,000	100.00	24,000	100.00
Inflation adjustment on equity items	52,743		52,743	
	76,743		76,743	

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NOTE 18 – EQUITY (Continued)

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

Publicly traded companies enter into force as of 1 February 2014, dividend distributions according to the Communiqué No: II-19.1.

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

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

	31 December 2019	31 December 2018
Paid-in share capital	24,000	24,000
Inflation adjustment on equity items	52,743	52,743
Restricted reserves	73,770	66,678
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(9,741)	(3,586)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	(12,380)	12,997
Retained earnings		
- Extraordinary reserves	146,712	61,468
- Inflation adjustments on legal reserves	10,950	10,950
Net income for the year	351,592	164,336
	637,646	389,586

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NOTE 18 - EQUITY (Continued)

As of 31 December 2019 and 2018, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows :

31 December 2019

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	73,770	10,950	84,720
	97,770	63,693	161,463

31 December 2018

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	66,678	10,950	77,628
	90,678	63,693	154,371

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

	31 December 2019	31 December 2018
Legal reserves	73,770	66,678
Extraordinary reserves	94,618	48,350
	168,388	115,028

Dividends distributed during the year based on previous year's net income per statutory financial statements	72,000	70,000
Dividend paid per share (Kr)	0,300	0,292

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

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NOTE 19 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 December 2019	1 January - 31 December 2018
Domestic sales	495,401	595,707
Export sales	1,957,037	1,101,378
Gross sales	2,452,438	1,697,085
Less: sales discounts and returns	(21,795)	(18,424)
Net sales	2,430,643	1,678,661

Sales of the Group for the years ended 31 December 2019 and 2018 in terms of the products are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Commercial vehicle	1,106,821	857,541
Armored vehicle	1,034,333	591,671
Accrued earnings related to construction contracts	-	23,896
Other sales (*)	289,489	205,553
	2,430,643	1,678,661

(*) Consists of spare parts, service and other sales income.

Cost of sales

	1 January - 31 December 2019	1 January - 31 December 2018
Cost of finished goods sold	(1,371,261)	(982,150)
Cost of merchandise goods sold	(140,331)	(103,554)
	(1,511,592)	(1,085,704)

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

	1 January - 31 December 2019	1 January - 31 December 2018
Sales and marketing expenses	(387,524)	(285,053)
General administrative expenses	(120,006)	(91,886)
Research and development expenses	(59,061)	(50,481)
	(566,591)	(427,420)

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2019	1 January - 31 December 2018
Cost of raw material and consumption goods	1,301,930	854,610
Personnel expenses	260,518	234,802
Cost of merchandises sold	139,258	112,697
Warranty provision expense (Note 15)	100,090	46,276
Administrative expenses	84,142	63,255
Depreciation and amortization expense	73,379	58,448
Sales, incentives and premiums	40,858	64,741
Transportation, distribution and storage expenses	39,602	27,436
Operational expenses	36,538	33,630
Advertising, promotion and promotion costs	26,900	21,511
Change in finished and semi-finished goods	(113,840)	(94,443)
Other expenses	88,808	90,161
	2,078,183	1,513,124

The breakdown of personnel expenses for the years 2019 and 2018 is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Based on the account it's recorded:		
Cost of sales and inventories on hand	134,246	114,268
Sales and marketing expenses	71,458	65,582
Capitalized development expenditures	74,086	50,513
General administrative expenses	52,010	32,511
Costs related to uncompleted contracts	-	19,757
Research and development expenses	2,804	2,684
	334,604	285,315

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NOTE 21 - EXPENSES BY NATURE (Continued)

	1 January - 31 December 2019	1 January - 31 December 2018
By nature:		
Wages and salaries	266,084	220,260
Social security premiums	30,657	26,879
Other social benefits	23,428	19,481
Provision for employment termination benefits	9,845	15,603
Provision for vacation pay liability	2,077	1,157
Other	2,513	1,935
	334,604	285,315

NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating income		
Foreign exchange gains on operating activities	167,600	235,978
Gain on forward transactions	64,812	53,126
Revenue from charge of due date receivables	23,163	30,255
Incentives income	1,477	1,940
Other	27,611	23,402
	284,663	344,701
Other operating expenses		
Foreign exchange loss on operating activities	(139,400)	(241,979)
Loss on forward transactions	(29,985)	(27,027)
Provision for doubtful receivables (Note 8)	(3,705)	(9,485)
Other	(87)	(335)
	(173,177)	(278,826)

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NOT 23 - FINANCIAL INCOME

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains on bank borrowings	18,786	13,265
Foreign exchange gains on deposits	13,997	28,649
Interest income from time deposits	1,887	3,977
	34,670	45,891

NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Interest expense on bank borrowings	(129,217)	(120,609)
Foreign exchange losses on bank borrowings	(44,523)	(30,547)
Foreign exchange losses on deposits	(16,071)	(14,426)
Other	(2,766)	(304)
	(192,577)	(165,886)

NOTE 25 - TAX ASSETS AND LIABILITIES

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

In Turkey, the corporation tax rate is 22% (2018: 22%). 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 22% 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.

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

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

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 100% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations.

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2018 and 2017.

As a result of its research and development expenditures made in 2019 amounting to TRY115,358 thousand (2018: TRY328,546 thousand). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

As of 31 December 2019 and 2018, income tax payables are presented net of prepaid taxes in the balance sheet as follows::

	31 December 2019	31 December 2018
Income tax payable	4,960	632
Prepaid taxes (-)	(4,960)	(65)
	-	567

The breakdown of total tax expense for the years ended 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Current tax charge	(4,960)	(632)
Deferred tax income / expense reflected in profit or loss		
Charged to profit for the period	10,198	43,823
Charged to other comprehensive income	1,735	(365)
	6,973	42,826

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

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

	1 January - 31 December 2019	1 January - 31 December 2018
Profit before tax	346,354	121,145
Income tax charge at effective tax rate 22%	(76,198)	(26,652)
Disallowable expenses	(11,895)	(7,527)
Discounts and exceptions	72,789	73,621
Tax effect on gain on investments accounted for using the equity method	8,750	2,680
Impact of foreign companies subject to different tax rates	8,464	2,702
Other	3,328	(1,998)
	5,238	42,826

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

As of 31 December 2019 and 2018, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets / (liability)	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Incentives from research and development activities (*)	314,365	334,643	69,160	73,621
Property, plant and equipment	(27,051)	(19,389)	(1,929)	(396)
Intangible assets	(103,649)	(71,733)	(20,730)	(14,347)
Deferred financial expenses	(1,323)	(1,410)	(291)	(310)
Inventories	10,027	6,519	2,195	1,424
Warranty provision	77,897	43,778	16,226	9,403
Provision for employment termination benefits	48,460	38,235	9,692	7,647
Deferred financial income	(2,134)	880	(470)	194
Other provisions	49,968	54,726	10,283	11,198
Deferred maintenance income	145,908	41,876	24,435	6,511
Due from customers on contract works	-	-	-	-
Other	(32,061)	(24,019)	(6,574)	(4,881)
Deferred tax assets, net			101,997	90,064

- (*) The Company's incentive income from investments with incentive certificate are subject to corporate income tax exemption tax at reduced rates being effective starting from the period that investment is partially or entirely operated and till the period that investment reaches the contribution amount. In this context, as of 31 December 2019, the tax advantage of TRY314,365 (31 December 2018: TRY334,643), which the Company will use in the foreseeable future, has been recognized in the consolidated financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before has not been calculated since the case regarding the use of tax benefit of TRY164,801 thousand for aforementioned years is still in progress.

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

The movement of deferred tax asset for the years ended 31 December 2019 and 2018 are as follows

	2019	2018
1 January	90,064	46,606
Deferred tax income		
charged to profit for the period	10,198	43,823
Charged to other comprehensive income	1,735	(365)
31 December	101,997	90,064

NOTE 26 - EARNINGS PER SHARE

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

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

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

	31 December 2019	31 December 2018
Net income attributable to shareholders (TRY)	351,592	164,336
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	1.465	0,685

NOTE 27 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 December 2019 and 2018:

Due from related parties	31 December 2019	31 December 2018
Ram Dış Ticaret A.Ş. (1) (*)	138,537	271,758
Al Jasoor Heavy Vehicles Industry LLC (3) (**)	81,303	126,822
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	60	-
Ford Otosan A.Ş. (1), (2)	-	464
	219,900	399,044

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

(**) This amount consists of the trade receivables due to the sales to Al Jasoor Heavy Vehicles Industry LLC.

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Due to related parties	31 December 2019	31 December 2018
Koç Holding A.Ş. (2)	11,787	7,083
Zer Merkezi Hizmetler A.Ş. (1)	4,914	5,836
Ram Dış Ticaret A.Ş. (1)	4,400	6,916
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	3,803	931
Setur Servis Turistik A.Ş. (1)	1,573	1,245
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	830	788
Opet Fuchs Madeni Yağ A.Ş. (1)	479	-
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	-	707
Other (1)	1,945	1,840
	29,731	25,346

Advances received from related parties	31 December 2019	31 December 2018
Al Jasoor Heavy Vehicles Industry LLC (3) (*)	527,169	652,617
	527,169	652,617

(*) These are the advances received due to sales to Al Jasoor Heavy Vehicles Industry LLC, which is a Joint Venture of the Group.

ii) Significant sales to related parties and significant purchases from related parties:

Sales of products and services	1 January - 31 December 2019	1 January - 31 December 2018
Al Jasoor Heavy Vehicles Industry LLC (3)	810,709	172,279
Ram Dış Ticaret A.Ş. (1) (*)	253,240	407,999
Other (1)	173	239
	1,064,122	580,517

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

- (1) Related parties of the parent company
- (2) Shareholder
- (3) Joint venture

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Fixed asset purchases	1 January - 31 December 2019	1 January - 31 December 2018
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	2,748	2,288
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	192	167
Ingage Dijital (1)	92	-
Zer Merkezi Hizmetler A.Ş. (1)	47	117
Other (1)	24	20
	3,103	2,592
Inventory purchases	1 January - 31 December 2019	1 January - 31 December 2018
Zer Merkezi Hizmetler A.Ş. (1)	42,044	37,505
Ram Dış Ticaret A.Ş. (1)	5,203	7,904
Opet Petrolcülük A.Ş. (1)	3,493	3,761
Opet Fuchs Madeni Yağ A.Ş. (1)	3,173	2,321
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2,633	2,359
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	2,196	625
Other (1)	574	209
	59,316	54,684
Service purchases	1 January - 31 December 2019	1 January - 31 December 2018
Ram Dış Ticaret A.Ş. (1)	65,582	39,615
Setur Servis Turistik A.Ş. (1)	11,644	10,036
Koç Sistem Bilgi ve İlt. Hiz. A.Ş. (1)	9,507	7,159
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	6,695	5,846
Ram Sigorta Aracılık Hiz. A.Ş. (1) (**)	6,496	5,027
Koç Holding A.Ş. (2) (*)	5,339	9,509
Ingage Dijital (1)	1,689	613
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	-	1,132
Other (1)	3,864	2,626
	110,816	81,563

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

(**) It includes paid and accrued premium as of 31 December 2019 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

- (1) Related parties of the parent company
(2) Shareholder
(3) Joint venture

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Banks deposits	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	4,510	15,631
- Demand deposits	2	471
	4,512	16,102
Checks and notes in collection	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)	1,921	2,662
	1,921	2,662

For the years ended 31 December 2019 and 2018, financial income and expense with related parties are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Trade receivables and payables foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	87,282	42,596
Yapı ve Kredi Bankası A.Ş. (1)	4,018	9,193
Other (1)	290	338
	91,590	52,127
Trade receivables and payables foreign exchange expenses		
Ram Dış Ticaret A.Ş. (1)	32,482	16,345
Yapı ve Kredi Bankası (1)	7,470	7,861
Zer Merkezi Hizmetler A.Ş. (1)	456	1,003
Other (1)	14	48
	40,422	25,257

(1) Related parties of the parent company

(2) Shareholder

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

	1 January - 31 December 2019	1 January - 31 December 2018
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	269	431
	269	431
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	16,009	214
	16,009	214

(1) Related parties of the parent company

Benefits provided to senior executives

For the year ended 31 December 2019, the total amount of benefits provided to senior management is TRY19,044 thousand (31 December 2018: TRY 17,518 thousand). TRY 1,400 thousand of this amount is related to the payments made due to separation (31 December 2018: None) and the remaining part consists of short term benefits. It consists of senior managers, board members, general manager and deputy general managers.

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

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

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk from any individual counterparty (excluding related parties) and by receiving guarantees from customers when considered necessary. Credit risk of the Group mainly arises from trade receivables. The Group manages this risk that may arise from its dealers or from other customers by restricting the credit limits determined for the dealers according the amount of guarantees received, by receiving advance payments or by receiving the pledge of ownership of the vehicles sold. Credit limits are regularly monitored by the Group and the customers' credit quality are regularly evaluated by considering the customer's financial position, past experiences and other factors. All foreign sales are made after receiving confirmed letters of credit. Military vehicle sales are made to domestic or foreign governmental institutions or to companies acting as agents to these institutions; accordingly, the Group does not anticipate any collection risk related to military vehicle sales. Trade receivables are evaluated by management based on their past experiences and current economic condition, and are presented in financial statements net of provision for doubtful receivables (Note8).

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

31 December 2019	Receivables		Bank deposits	Derivati ve truments
	Trade receivables	Other		
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	947,619	1,344	222,722	-
- Maximum risk secured by guarantee (2)	189,378	-	-	-
A. Net book value of financial assets neither overdue nor impaired	946,222	1,344	222,722	-
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	270	-	-	-
D. Net book value of impaired assets	1,127	-	-	-
- Overdue (gross book value)	47,828	-	-	-
- Impairment (-) (Note 8)	(46,701)	-	-	-
- Net value under guarantee	1,127	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off - balance sheet items having credit risk	-	-	-	-

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

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

31 December 2018	Receivable			Derivat ive instru ment
	Trade receivables	Other	Bank deposits	
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	878,387	1,011	172,262	297
- Maximum risk secured by guarantee (2)	(186,069)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	877,043	1,011	172,262	-
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	255	-	-	-
D. Net book value of impaired assets	1,089	-	-	-
- Overdue (gross book value)	44,601	-	-	-
- Impairment (-) (Note 8)	(43,512)	-	-	-
- Net value under guarantee	1,089	-	-	-
- 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.

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 are managed by maintaining the availability of adequate committed funding lines from high quality lenders.

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

As of 31 December 2019 and 2018, maturities of gross trade payables and financial liabilities are as follows:

31 December 2019

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	777,377	868,717	300,576	134,389	433,752	-
Trade payables	256,191	257,532	257,020	512	-	-

Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	46,434	18,946	18,946	-	-	-
Other short-term liabilities	5,881	5,881	5,881	-	-	-

Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	(1,100)	(1,100)	(1,100)	-	-	-
Derivative cash inflows	(305,689)	(305,689)	(305,689)	-	-	-
Derivative cash outflows	(306,789)	(306,789)	(306,789)	-	-	-

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

31 December 2018

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	707,547	845,890	238,036	85,598	522,256	-
Trade payables	269,459	270,889	270,483	406	-	-

Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	43,292	14,693	14,693	-	-	-
Other short-term liabilities	15,409	15,409	15,409	-	-	-

Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	297	297	297			
Derivative cash inflows	470,301	470,301	470,301	-	-	-
Derivative cash outflows	(470,004)	(470,004)	(470,004)	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

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

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

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

31 December 2019	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	760,010	29,718	87,717	14
2a. Monetary financial assets (including cash, bank accounts)	19,717	2,877	395	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	24	4	-	-
4. Current assets (1+2+3)	779,751	32,599	88,112	14
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	-	-	-	-
9. Total assets(4+8)	779,751	32,599	88,112	14
10. Trade payables	(147,618)	(14,402)	(9,218)	(98)
11. Financial liabilities	(140,487)	-	(21,124)	-
12a. Monetary other liabilities	(244,327)	(40,940)	(138)	(28)
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(532,432)	(55,342)	(30,480)	(126)
14. Trade payables	-	-	-	-
15. Financial liabilities	(133,012)	-	(20,000)	-
16a. Monetary other liabilities	(152,983)	(25,754)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(285,995)	(25,754)	(20,000)	-
18. Total liabilities (13+17)	(818,427)	(81,096)	(50,480)	(126)
Net balance sheet position (9+18)	(38,676)	(48,497)	37,632	(112)
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	49,641	51,461	(38,500)	-
19a. Hedged total assets amount	305,689	51,461	-	-
19b. Hedged total liabilities amount	(256,048)	-	(38,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	10,965	2,964	(868)	(112)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	(38,701)	(48,501)	37,632	(112)
22. Total fair value of financial instruments used for foreign currency hedging	1,100	-	851	249
23. Export	1,945,041	177,305	86,860	2,417
24. Import	630,817	46,815	56,233	1,110

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

31 December 2018	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	805,011	76,525	66,210	497
2a. Monetary financial assets (including cash, bank accounts)	67,110	3,371	8,191	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	58	11	-	-
4. Current assets (1+2+3)	872,179	79,907	74,401	497
5. Trade receivables	7,933	-	1,316	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	7,933	-	1,316	-
9. Total assets (4+8)	880,111	79,907	75,717	497
10. Trade payables	(165,872)	(19,894)	(10,117)	(34)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(8,871)	(929)	(630)	(28)
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(174,743)	(20,823)	(10,747)	(62)
14. Trade payables	-	-	-	-
15. Financial liabilities	(60,268)	-	(9,998)	-
16a. Monetary other liabilities	(522,327)	(99,285)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(582,595)	(99,285)	(9,998)	-
18. Total liabilities (13+17)	(757,338)	(120,108)	(20,745)	(62)
Net balance sheet position (9+18)	122,773	(40,201)	54,972	435
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(106,438)	41,069	(53,500)	-
19a. Hedged total assets amount	342,322	65,069	-	-
19b. Hedged total liabilities amount	(448,760)	(24,000)	(53,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	16,334	868	1,472	435
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	122,714	(40,212)	54,972	435
22. Total fair value of financial instruments used for foreign currency hedging	(299)	(1,722)	1,223	200
23. Export	1,092,424	90,564	83,810	529
24. Import	639,474	58,468	59,705	1,048

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 31 December 2019 and 2018:

	<u>Profit before tax</u>	<u>Profit before tax</u>
	<u>Appreciation of</u>	<u>Depreciation of</u>
<u>31 December 2019</u>	<u>foreign currency</u>	<u>foreign currency</u>
<i>In case 10% appreciation of USD against TRY:</i>		
1- USD net asset/liability	1,761	(1,761)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	1,761	(1,761)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	(577)	577
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(577)	577
<i>In case 10% appreciation of GBP against TRY</i>		
7- GBP net asset/liability	(87)	87
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(87)	87
Total (3+6+9)	1,097	(1,097)
	<u>Profit before tax</u>	<u>Profit before tax</u>
	<u>Appreciation of</u>	<u>Depreciation of</u>
<u>31 December 2018</u>	<u>foreign currency</u>	<u>foreign currency</u>
<i>In case 10% appreciation of USD against TRY:</i>		
1- USD net asset/liability	457	(457)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	457	(457)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	887	(887)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	887	(887)
<i>In case 10% appreciation of GBP against TRY</i>		
7- GBP net asset/liability	289	(289)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	289	(289)

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Total (3+6+9)	1,633	(1,633)
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**NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

b) Interest position table and related sensitivity analysis

Interest rate risk

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

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

As of 31 December 2019 and 2018, the financial liabilities of the Group are consisted of fixed rate bank borrowings.

Capital risk management

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

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

	31 December 2019	31 December 2018
Total financial liability	801,849	707,547
Less: cash and cash equivalents (Note 4)	(222,722)	(173,017)
Net financial liability	579,127	534,530
Total equity	637,646	389,586
Financial debt/shareholders' equity factor	%91	%137

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NOTE 29 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group's assets that are measured at fair value at 31 December 2019 and 2018:

31 December 2019

Liabilities	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,100	-	1,100
	-	1,100	-	1,100

31 December 2018

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	297	-	297
	-	297	-	297

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

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

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

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

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

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NOTE 30 - SUBSEQUENT EVENTS

None.

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