

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2018**

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2018**

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 MARCH 2018 AND 31 DECEMBER 2017

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

	Notes	(Unaudited) 31 March 2018	(Audited) 31 December 2017
Assets			
Current assets			
Cash and cash equivalents	4	40,487	228,958
Trade receivables	8	410,094	445,329
<i>Due from related parties</i>	22	35,451	29,656
<i>Due from other parties</i>	8	374,643	415,673
Other receivables		14	68
Due from customers on contract works	10	351,263	312,030
Inventories	9	500,739	413,056
Derivative financial instruments	7	406	1,325
Prepaid expenses	14	206,619	190,153
Other current assets	14	33,247	40,632
Total current assets		1,542,869	1,631,551
Non-current assets			
Trade receivables	8	3,418	10,235
Other receivables		301	281
Financial investments	5	41	41
Property, plant and equipment, net	11	100,330	101,009
Intangible assets, net	12	224,772	219,864
Deferred tax asset	20	50,119	46,606
Total non-current assets		378,981	378,036
Total assets		1,921,850	2,009,587

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 MARCH 2018 AND 31 DECEMBER 2017

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

	Notes	(Unaudited) 31 March 2018	(Audited) 31 December 2017
Liabilities			
Current liabilities			
Short-term borrowings	6	65,597	429,248
Short-term portion of long-term borrowings	6	274,918	84,410
Trade payables	8	145,411	62,117
<i>Due to related parties</i>	22	7,715	14,094
<i>Due to other parties</i>	8	137,696	48,023
Employee benefit obligations	14	16,187	24,294
Other payables, third parties		43,457	42,549
Deferred revenue	14	7,497	21,084
Government grants		1,776	1,940
Short-term provisions	13	413,158	403,935
<i>Provisions for employee benefits</i>		11,111	9,286
<i>Other provisions</i>		402,047	394,649
Other current liabilities	14	4,036	2,742
Total current liabilities		972,037	1,072,319
Non-current liabilities			
Long-term borrowings	6	280,000	190,000
Government grants		1,120	1,441
Long-term provisions	13	34,083	31,693
<i>Provisions for employee benefits</i>		34,083	31,693
<i>Other provisions</i>		-	-
Deferred revenue	14	449,562	430,580
Total non-current liabilities		764,765	653,714
Total liabilities		1,736,802	1,726,033
Equity			
Paid-in share capital		24,000	24,000
Inflation adjustment on share capital		52,743	52,743
Restricted reserves		66,678	59,798
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(6,059)	(4,880)
<i>Defined benefit plans remeasurement profit (losses)</i>		(6,059)	(4,880)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		2,794	2,396
<i>Currency translation differences</i>		2,794	2,396
Retained earnings		72,617	50,074
Net profit for the period		(27,725)	99,423
Total equity		185,048	283,554
Total liabilities and equity		1,921,850	2,009,587

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE INTERIM PERIOD ENDED AS OF 31 MARCH 2018 AND 2017

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

	Notes	(Unaudited) 1 January – 31 March 2018	(Unaudited) 1 January – 31 March 2017
Net sales	15	252,385	566,419
Cost of sales (-)	15	(197,323)	(427,407)
GROSS PROFIT		55,062	139,012
Marketing expenses (-)	16	(42,301)	(59,138)
General administrative expenses (-)	16	(18,144)	(18,283)
Research and development expenses (-)	16	(12,302)	(10,921)
Other operating income	17	147,258	121,592
Other operating expenses (-)	17	(139,862)	(106,003)
OPERATING PROFIT		(10,289)	66,259
Income from investing activities		-	42
OPERATING INCOME BEFORE FINANCIAL EXPENSES		(10,289)	66,301
Financial income	18	8,897	3,173
Financial expense (-)	19	(29,513)	(32,326)
PROFIT BEFORE TAX		(30,905)	37,148
Tax income/expense from continued operations			
- Current tax expense (-)	20	-	-
- Deferred tax income/(expense)	20	3,180	-
PROFIT FOR THE PERIOD		(27,725)	37,148
Items that will not be reclassified to statement of profit or loss			
Remeasurement losses on employee benefits)		(1,512)	(1,918)
Deferred tax income/(expense)		333	384
Items that may be reclassified to statement of profit or loss			
Currency translation differences		398	238
Other comprehensive expense		(781)	(1,296)
TOTAL COMPREHENSIVE INCOME		(28,506)	35,852
Loss/(earnings) per share (Piaster)	21	(0.116)	0.155

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE INTERIM PERIOD ENDED 31 MARCH 2018 AND 2017

(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 (loss)	Accumulated other comprehensive income and expense that may be reclassified to statement of profit (loss)				
		Paid in share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity
Previous Period	Opening Balances	24,000	52,743	54,015	(4,986)	1,329	46,132	69,725	242,958
	Transfer	-	-	5,783	-	-	63,942	(69,725)	-
	Dividends paid	-	-	-	-	-	(60,000)	-	(60,000)
	Total comprehensive income	-	-	-	(1,534)	238	-	37,148	35,852
	Closing Balances	24,000	52,743	59,798	(6,520)	1,567	50,074	37,148	218,810
Current Period	Opening Balances	24,000	52,743	59,798	(4,880)	2,396	50,074	99,423	283,554
	Transfer	-	-	6,880	-	-	92,543	(99,423)	-
	Dividends paid	-	-	-	-	-	(70,000)	-	(70,000)
	Total comprehensive income	-	-	-	(1,179)	398	-	(27,725)	(28,506)
	Closing Balances	24,000	52,743	66,678	(6,059)	2,794	72,617	(27,725)	185,048

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE INTERIM PERIOD ENDED 31 MARCH 2018 AND 2017

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

	Notes	(Unaudited) 1 January - 31 March 2018	(Unaudited) 1 January - 31 March 2017
CASH FLOWS FROM OPERATING ACTIVITIES		8,541	(285,840)
Net profit for the period		(27,725)	37,148
Adjustments to reconcile income before taxes to net cash flows from operating activities:		64,318	70,462
Depreciation and amortization	11, 12	15,161	14,502
Adjustments in relation to impairment		2,635	1,159
- Provision for doubtful receivables	8	2,208	1,294
- Provision for inventories	9	427	(135)
Adjustments in relation to provision		15,418	28,753
- Provision for employee benefits	13	2,664	1,479
- Warranty provision expenses	13	12,754	27,274
Adjustments in relation to interest income and expenses		23,360	25,032
- Interest income on time deposits	18	(1,691)	(174)
- Interest expense on borrowings	19	25,051	25,206
Adjustments in relation to unrealised foreign exchange gains and losses		1,519	3,968
Adjustments in relation to fair value gains and losses		6,225	(2,910)
- Fair value losses/(gains) on financial derivative instruments, net		6,225	(2,910)
Adjustments in relation to gains or losses on sales of property, plant and equipment		-	(42)
- Gain on sale of property, plant and equipment		-	(42)
Changes in net working capital		(8,532)	(375,205)
Change in trade receivables		39,878	(125,307)
Change in due from customers on contract works		(39,233)	(10,478)
Change in inventories		(88,110)	14,167
Change in trade payables		83,294	(186,981)
Other changes		(4,361)	(66,606)
- Changes in other operating assets		(9,081)	9,000
- Changes in other operating liabilities		4,720	(75,606)
Cash flows from operations		28,061	(267,595)
Payments in relation to employee benefits	13	(1,786)	(1,839)
Payments in relation to other provisions	13	(12,428)	(19,659)
Other cash collections/(payments)		(5,306)	3,253
CASH FLOWS FROM INVESTING ACTIVITIES		(19,390)	(18,434)
Proceeds from sale of property, plant and equipment and intangible assets		6	256
- Proceeds from sale of property, plant and equipment		6	256
Cash outflows due to purchase of property, plant and equipment and intangible assets		(19,396)	(18,690)
- Purchase of property, plant and equipment	11	(2,102)	(1,756)
- Purchase of intangible assets	12	(17,294)	(16,934)
CASH FLOWS FROM FINANCING ACTIVITIES		(178,020)	269,543
Cash inflow due to borrowings		542,806	352,994
- Proceeds from bank borrowings		542,806	352,994
Cash outflow due to repayment of borrowings		(632,396)	(5,922)
- Repayments of borrowings		(632,396)	(5,922)
Dividends paid		(70,000)	(60,000)
Interest paid		(20,121)	(17,703)
Interest received		1,691	174
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		(188,869)	(34,731)
Currency translation difference on cash and cash equivalents		398	238
NET DECREASE IN CASH AND CASH EQUIVALENTS		(188,471)	(34,493)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	228,958	38,598
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	40,487	4,105

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

(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, armoured 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 Maltepe/İstanbul

Plant: Atatürk Cad. No: 6 54580 Arifiye/Sakarya

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

Legal Name	Nature of operations	Country	Capital	Ownership (%)
Otokar Europe SAS	Trade	France	Euro 100 thousand (TRY239 thousand)	100.00

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

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

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

	31 March 2018		31 December 2017	
	Period end	Average	Period end	Average
Total personnel	2,105	2,155	2,147	2,205

These consolidated financial statements at 31 March 2018 were authorized for issue and signed with the approval of the Internal Audit Committee by the Board of Directors of Otokar on 4 May 2018. 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 March 2018 27.45% of the shares are quoted on the BIST.

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

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

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.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

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

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

The consolidated financial statements have been prepared from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with Turkish Accounting Standards as prescribed by POA. The adjustments are mainly related with deferred taxation, retirement pay liability, prorata 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

Functional and presentation currency of the Company is thousand TL.

In accordance with the CMB’s resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 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 March 2018 and 31 December 2017 have been restated by applying the relevant conversion factors through 31 December 2004 and carrying additions after 31 December 2004 at their nominal values.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

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

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 period ended 31 March 2018 are consistent with those used in the preparation of financial statements for the year ended 31 December 2017.

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 15 “Revenue From Contracts with Customers”

Revenue recognition

The Group adopted TFRS 15, “ Revenue From Contracts with Customers” from 1 January 2018 which proposes a five step model framework mentioned below for recognizing the revenue.

- Identify the contact with customers
- Identify separate performance obligations in the contract
- Determine the transaction price in contract
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue

The Group assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

For each performance obligation identified, the entity determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Group transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time.

The Group recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

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

The Group considers the following in the assessment of transfer of control of goods sold and services,

- a) The entity has a right to payment for the goods or service,
- b) The customer has legal title to the goods or service,
- c) The entity has transferred physical possession of the asset,
- d) The customer has the significant risks and rewards related to the ownership of the goods or services,
- e) The customer has accepted the goods or services.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component since the Group expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. If the financing component is significant in revenue, future collections are discounted by the interest rate in financing component. The difference is recognised as income from operating activities in current period.

First time adoption of TFRS 15 “Revenue From Contracts with Customers”

The Group assessed the cumulative effect of initial application of TFRS 15 “Revenue From Contracts with Customers” which replaced “TMS 18 Revenue” retrospectively (“cumulative effect approach”) as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

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

2.3.2 TFRS 9 “Financial Instruments”

Classification and measurement

The Group classifies the financial assets as three groups such as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is made on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

“Financial assets measured at amortised cost”, are the financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, not have an active market and non derivative financial assets. “Cash and cash equivalents”, “trade receivables” are classified as financial assets measured at amortised cost. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Gains and losses recognised as a result of the fair value adjustments of financial assets amortised at cost and non derivative financial assets are included in the income statement.

“Financial assets measured at fair value through other comprehensive income” consist of assets except for the assets measured at amortised cost and at fair value through other comprehensive income Any gain or loss arising from fair value is recognised in income statement.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

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

2.3.2 TFRS 9 “Financial Instruments” (Continued)

The changes in the classification of financial assets and liabilities in accordance with TFRS 9 are explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets.

Financial assets	Classification in accordance with TMS 39	New classification in accordance with TFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through other comprehensive income

Financial liabilities	Classification in accordance with TMS 39	New classification in accordance with TFRS 9
Derivative instruments	Fair value through profit or loss	Fair value through other comprehensive income
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

Impairment

The recognition of credit losses defined in TMS 39 “Financial Instruments:Recognition and Measurement” which was effective before 1 January 2018 is replaced by recognition of expected credit losses. The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

Trade receivables

The Group has chosen “practical expedient” explained in TFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortised cost. Accordingly, the Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Group uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

First time adoption of TFRS 9 “Financial assets”

The Group assessed the cumulative effect of initial application of TFRS 9 “Financial Instruments” which replaced “TMS 39 Financial Instruments:Recognition and Measurement” retrospectively as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

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

a. Standards, amendments and interpretations applicable as at 31 March 2018

Explanations of the effects of the new TAS / TFRS on the financial statements:

- a) title of TAS / TFRS,
- b) the accounting policy change, if any, has been applied considering the transition principles
- c) clarification of the changes in the accounting policy,
- d) disclosure of transition principles, if any,
- e) the effects of the transitional principles, if any, on future periods,
- f) as much as possible, adjustments related to the current and each previous period presented:
 - i. shall disclose the effects for each financial statement line item and
 - ii. if the "TAS 33, Earnings per Share" standard is applicable for the Company, the amounts of ordinary and diluted earnings per share should be recalculated.
- g) if possible, effects of adjustments for non-presentation periods and
- h) If retrospective application is not possible for any period or periods, the events leading to this and the date from which the change in accounting policy is applied and how it is applied should be disclosed.

a. Standards, amendments and interpretations applicable as at 31 March 2018:

- **Amendments to IFRS 4, 'Insurance contracts'**; regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- **Amendment to IAS 40, 'Investment property'**; relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

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

2.3 Changes in accounting policies (continued)

a. Standards, amendments and interpretations applicable as at 31 March 2018 (continued)

- **Amendments to IFRS 2, ‘Share based payments’**; on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **Annual improvements 2014-2016**, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, ‘First time adoption of IFRS’; regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
 - IAS 28, ‘Investments in associates and joint venture’; regarding measuring an associate or joint venture at fair value.
- **IFRIC 22, ‘Foreign currency transactions and advance consideration’**; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

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

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

2.3 Changes in accounting policies (continued)

b. Standards, amendments and interpretations that are issued but not effective as at 31 March 2018:

- **Amendment to IFRS 9, ‘Financial instruments’**; effective from annual periods beginning on or after 1 January 2019. This amendment confirms 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 IAS 39.
- **Amendment to IAS 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 IFRS 9.
- **IFRS 16, ‘Leases’**; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 ‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 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 IFRS 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 IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 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.

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

2.3 Changes in accounting policies(continued)

b. Standards, amendments and interpretations that are issued but not effective as at 31 March 2018 (continued):

- **IFRS 17, ‘Insurance contracts’**; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **Annual improvements 2015-2017**; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to
 - IFRS 3, ‘Business combinations’, – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, ‘Joint arrangements’, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, ‘Income taxes’ – a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 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.
- **Amendments to IAS 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.

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

2.4 Significant accounting judgments and estimates

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

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

- a) In the context of TAS 11 “Construction contracts” assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the period ended 31 March 2018, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- d) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

2.5 Summary of significant accounting policies (continued)

Group accounting

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 March 2018 and 31 December 2017:

Subsidiaries	2018		2017	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100.00	100.00	100.00	100.00
Otokar Land Systems LLC (*)	100.00	100.00	100.00	100.00

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

NOTE 3 - SEGMENT REPORTING

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

Since the Chief Operations Decision Maker (composed of key management, board members, general manager and assistant general managers) does not monitor cost of sales (Note 15), operating expenses and financial expenses, the products group is only monitored based on revenue. Thus, segment reporting is not performed.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 March 2018	31 December 2017
Banks		
- demand deposits	27,200	214,933
- time deposits	9,135	12,434
Cheques and notes receivable	4,020	1,513
Other	132	78
	40,487	228,958

As of 31 March 2018, TRY 27,200 thousand of the total amount of time deposits amounting to TRY26,708 thousand is denominated in foreign currency and the annual effective interest rate is %3.5 and has a maturity of 3 days. The remaining annual effective interest rate of TRY492 thousand is %7.5 and has a maturity of 3 days.

(As of 31 December 2017, TRY214,933 thousand of the total time deposits amounting to TRY 214,849 thousand is denominated in foreign currency and the annual effective interest rate is %1.00, and has a maturity of 4 days. The remaining annual effective interest rate of TRY84 thousand is %8.25 and has a maturity of 4 days.)

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

As of 31 March 2018, the Group has blocked deposits amounting to TRY0,2 thousand (31 December 2017: TRY0,2 thousand).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Land Systems LLC" with paid in capital of AED50 thousand (TRY41 thousand), established in United Arab Emirates for the purpose of organizing export activities and increasing export sales. Since "Otokar Land Systems LLC" operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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NOTE 6 - BORROWINGS

31 March 2018	Maturities	Interest rate (%)	TRY
Short-term bank borrowings (*)			
Denominated in TRY	2 April 2018	0.00-14.50	16,921
Denominated in EUR	2 April 2018	2.15	48,676
			65,597

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

Denominated in TRY		12.60-16.80	274,918
			274,918

(*) Bearing fixed interest rate.

31 March 2018	Maturities	Interest rate (%)	TRY
Long-term bank borrowings (*) (**)			
Denominated in TRY	9 March 2020-23 March 2020	16.28-16.80	280,000
			280,000

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 732 days.

31 December 2017	Maturities	Interest rate (%)	TRY
Short-term bank borrowings (*)			
Denominated in TRY(***)	2 January 2018	0.00	42
Payables from factoring activities	21 February 2018- 22 March 2018	16.38-18.01	429,206
			429,248

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

Denominated in TRY		12.60-14.44	84,410
			84,410

31 December 2017	Maturities	Interest rate (%)	TRY
Long-term bank borrowings (*) (**)			
Denominated in TRY	1 February 2019- 20 February 2019	14.27 - 14.44	190,000
			190,000

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 405 days.

As of 31 March 2018, the Group has not provided any guarantees for the borrowings (31 December 2017: None)..

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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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 liabilities
31 March 2018:			
Forward transactions	316,781	05 April 2018- 19 April 2018	406
Short-term derivative financial instruments	316,781		406
Total derivative financial instruments	316,781		406

	Contract amount	Current period contract maturity	Fair value assets
31 December 2017:			
Forward transactions	259,323	4 January 2018- 25 January 2018	1,325
Short-term derivative financial instruments	259,323		1,325
Total derivative financial instruments	259,323		1,325

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 March 2018	31 December 2017
Trade receivables, net	263,508	268,152
Notes receivables, net	146,966	181,506
	410,474	449,658
Less: provision for doubtful receivables	(35,831)	(33,985)
Short-term trade receivables	374,643	415,673
Trade receivables from related parties (Note 22)	35,451	29,656
Short-term trade receivables	410,094	445,329
Long-term notes receivable, net	3,418	10,235
Long-term trade receivables	3,418	10,235

As of 31 March 2018, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2017 60-90 days).

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 March 2018 and 31 December 2017, the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armoured vehicle sales. As of 31 March 2018, the total trade receivable from dealers amounting to TRY139,623 thousand (31 December 2017: TRY154,074 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY139,432 thousand (31 December 2017: TRY193,792 thousand).

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

31 March 2018	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	239
Over 5 year past due	-
Total	239
Amount secured with guarantees	239
31 December 2017	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	236
Over 5 year past due	-
Total	236
Amount secured with guarantees	236

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

The movement of the provision for doubtful receivables for the periods ended 31 March 2018 and 31 March 2017 are as follows:

	2018	2017
As of 1 January	33,985	28,910
Collection	(362)	(5)
Currency translation difference	101	57
Increase during the period	2,107	1,237
31 March	35,831	30,199

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	31 March 2018	31 December 2017
Trade payables, net	137,323	47,667
Notes payables, net	373	356
Short-term other trade payables	137,696	48,023
Trade payables to related parties (Note 22)	7,715	14,094
Short-term trade payables	145,411	62,117

As of 31 March 2018, average payment term for trade payables is 45-60 days (31 December 2017: 45-60 days).

As of March 31, 2018 and December 31, 2017, the fair value of trade receivables approximate to their carrying values due to short-term maturity of the those receivables.

NOTE 9 - INVENTORIES

	31 March 2018	31 December 2017
Raw material	194,077	163,088
Semi-finished goods	41,006	14,140
Finished goods	94,509	83,286
Merchandise goods	79,449	75,478
Goods in transit	92,825	77,764
Impairment for inventories (*)	(1,127)	(700)
Total	500,739	413,056

(*) TRY799 thousand of impairment is related to finished goods (31 December 2017: TRY155 thousand) and TRY328 thousand is related to merchandises (31 December 2017: TRY545 thousand). The impairment has been accounted for under cost of sales.

NOTE 10 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts are TRY351,263 thousand as of 31 March 2018 (31 December 2017: TRY312,030 thousand) after offsetting with short-term advances received.

As of 31 March 2018, the short-term advances received by the Group and deferred revenues related with ongoing projects are none in the consolidated financial statements (31 December 2017: None).

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the periods ended 31 March 2018 and 31 March 2017 are as follows:

	1 January 2018	Additions	Currency translation differences	Disposals	Transfers	31 March 2018
Cost:						
Land	37,457	-	-	-	-	37,457
Land improvements	12,355	-	-	-	-	12,355
Buildings	60,729	-	-	-	-	60,729
Machinery and equipment	110,616	790	60	-	-	111,466
Motor vehicles	9,608	257	-	-	-	9,865
Furniture and fixtures	38,938	429	25	(107)	-	39,285
Leasehold improvements	2,131	146	-	-	-	2,277
Construction in process	1,454	395	-	-	-	1,849
	273,288	2,017	85	(107)	-	275,283
Accumulated depreciation:						
Land improvements	(7,962)	(76)	-	-	-	(8,038)
Buildings	(44,651)	(644)	-	-	-	(45,295)
Machinery and equipment	(90,556)	(1,177)	(36)	-	-	(91,769)
Motor vehicles	(5,403)	(177)	-	-	-	(5,580)
Furniture and fixtures	(21,911)	(585)	(19)	101	-	(22,414)
Leasehold improvements	(1,796)	(61)	-	-	-	(1,857)
	(172,279)	(2,720)	(55)	101	-	(174,953)
Net book value	101,009					100,330
	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	31 March 2017
Cost:						
Land	37,457	-	-	-	-	37,457
Land improvements	11,970	-	-	-	-	11,970
Buildings	60,633	-	-	-	-	60,633
Machinery and equipment	106,176	305	32	-	-	106,513
Motor vehicles	9,613	277	-	(281)	-	9,609
Furniture and fixtures	33,986	721	10	-	-	34,717
Leasehold improvements	2,116	15	-	-	-	2,131
Construction in process	696	396	-	-	-	1,092
	262,647	1,714	42	(281)	-	264,122
Accumulated depreciation:						
Land improvements	(7,479)	(163)	-	-	-	(7,642)
Buildings	(37,501)	(684)	-	-	-	(38,185)
Machinery and equipment	(86,576)	(1,222)	(16)	-	-	(87,814)
Motor vehicles	(5,633)	(166)	-	67	-	(5,732)
Furniture and fixtures	(18,839)	(983)	(8)	-	-	(19,830)
Leasehold improvements	(1,517)	(79)	-	-	-	(1,596)
	(157,545)	(3,297)	(24)	67	-	(160,799)
Net book value	105,102					103,323

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of depreciation and amortization expenses of property, plant and equipment and intangible assets for the periods ended at 31 March 2018 and 2017 are as follows:

	31 March 2018	31 March 2017
Research and development expenses	12,037	10,653
Cost of goods sold	899	954
Depreciation on outstanding inventories	861	633
Development projects in process	528	478
General administrative expenses	446	393
Selling and marketing expenses	318	320
Currency translation differences	55	24
Costs related to uncompleted contracts	17	1,047
Total	15,161	14,502

NOTE 12 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the periods ended 31 March 2018 and 2017 are as follows:

	1 January 2018	Additions	Currency translation differences	Disposals	Transfers	31 March 2018
Cost:						
Other intangible assets	20,231	66	-	-	-	20,297
Development costs	345,703	167	-	-	2,617	348,487
Developments projects in progress	66,683	17,061	-	-	(2,617)	81,127
	432,617	17,294	-	-	-	449,911
Accumulated amortization:						
Other intangible assets	(15,965)	(349)	-	-	-	(16,314)
Development costs	(196,788)	(12,037)	-	-	-	(208,825)
	(212,753)	(12,386)	-	-	-	(225,139)
Net book value	219,864					224,772

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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NOTE 12 - INTANGIBLE ASSETS (Continued)

	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	31 March 2017
Cost:						
Other intangible assets	18,028	171	-	-	-	18,199
Development costs	297,383	-	-	-	-	297,383
Developments projects in progress	38,079	16,763	-	-	-	54,842
	353,490	16,934	-	-	-	370,424
Accumulated amortization:						
Other intangible assets	(14,078)	(528)	-	-	-	(14,606)
Development costs	(157,480)	(10,653)	-	-	-	(168,133)
	(171,558)	(11,181)	-	-	-	(182,739)
Net book value	181,932					187,685

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 March 2018	31 December 2017
Provision for other costs (*)	342,356	324,431
Warranty provision	53,391	53,065
Short-term provisions for employee benefits	11,111	9,286
Other	6,300	17,153
	413,158	403,935

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

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NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Warranty provision

The Group provides 2 years of warranty for vehicles sold. Therefore, warranty expense provision has been recorded only for the vehicles under guarantee as of the balance sheet date.

Movements of provision for warranty expenses during the periods ended 31 March 2018 and 2017 are as follows:

	2018	2017
1 January	53,065	41,385
Additional provision	12,754	27,274
Payments	(12,428)	(19,659)
As of 31 March	53,391	49,000

Provisions for employee benefits

	31 March 2018	31 December 2017
Provision for employment termination benefits	34,083	31,693
Provision for unused vacation	11,111	9,286
	45,194	40,979

Employment termination benefits

The amount payable consists of one month’s salary limited to a maximum of TRY5,001.76 for each year of service as of 31 March 2018 (31 December 2017 - TRY4,732.48).

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

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

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

	31 March 2018	31 December 2017
Net discount rate (%)	4.95	4.95
Turnover rate to estimate the probability of retirement (%)	97.28	97.28

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

The movements of provision for employment termination benefits during the interim periods ended 31 March 2018 and 2017 are as follows:

	2018	2017
1 January	31,693	28,088
Interest expense	717	635
Charge for the period	1,947	844
Remeasurement differences	1,512	1,918
Payments	(1,786)	(1,839)
As of 31 March	34,083	29,646

Provision for unused vacation

The movements of provisions for unused vacation during the interim periods ended 31 March 2018 and 2017 are as follows:

	2018	2017
1 January	9,286	8,491
Charge for the period net	1,825	1,262
As of 31 March	11,111	9,753

Commitments and contingencies

As of 31 March 2018 and 31 December 2017, the tables which represent the position of guarantees, pledges and mortgages are as follows

	31 March 2018	31 December 2017
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	2,106,048	1,853,700
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	-	-
	2,106,048	1,853,700

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	31 March 2018		31 December 2017	
	Original Currency	TRY equivalent	Original currency	TRY equivalent
USD	410,562	1,621,267	397,404	1,498,967
EUR	78,828	383,680	55,818	252,047
TRY	101,101	101,101	102,686	102,686
GBP	-	-	-	-
		2,106,048		1,853,700

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

	31 March 2018	31 December 2017
Guarantee letters given		
Under secretariat of Ministry of Defence	1,139,499	1,090,079
Other	966,549	763,621
	2,106,048	1,853,700

Guarantee letters

a) Guarantees given as of 31 March 2018 and 31 December 2017 are as follows:

	31 March 2018	31 December 2017
Bank letters of guarantee (*)	2,106,048	1,853,700
	2,106,048	1,853,700

(*) Bank letters of guarantee amounting to TRY982,911 thousand are given to Secretariat of Ministry of Defence for Altay Project (31 December 2017: TRY938,865 thousand).

b) Guarantees received as of 31 March 2018 and 31 December 2017 are as follows:

	31 March 2018	31 December 2017
Bank letters of guarantee (**)	676,517	651,824
Guarantee notes	15,582	14,550
Mortgages received	20	20
	692,119	666,394

(**) Bank letters of guarantee amounting to TRY 357,611 thousand are obtained from the sub-contractors for Altay Project (31 December 2017: TRY 340,829 thousand).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 was concluded in favor of the Group and the same cases are still in progress at appeal phase. Total amount of cases at the appeal phase amount to TRY36,169. The amount of the legal case for 2015 is TRY4,557. The case was also concluded in favor of the Group but the appeal phase is still in progress.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

NOTE 14 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES

a) Prepaid expenses:

	31 March 2018	31 December 2017
Advances given	194,275	185,594
Prepaid expenses	12,344	4,559
Total	206,619	190,153

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

b) Other current assets:

	31 March 2018	31 December 2017
Value added tax receivables	30,762	39,832
Other	2,485	800
	33,247	40,632

c) Deferred revenues:

Deferred revenues - short term	31 March 2018	31 December 2017
Deferred maintenance revenues (*)	4,393	9,437
Advances received	1,179	9,674
Other deferred income (**)	1,925	1,973
	7,497	21,084

Deferred revenues - long term	31 March 2018	31 December 2017
Advance receipts (***)	423,495	404,513
Other deferred income (**)	26,067	26,067
	449,562	430,580

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

(**) Includes deferred income from the sale of license rights to Otokar Land Systems LLC for vehicles to be produced under the BAE Project.

(***) The pre-advance received from Otokar Land Systems LLC’s subsidiary for the United Arab Emirates (BAE) Project, which was publicly disclosed to the public on 20 February 2017.

d) Employee benefits obligation:

	31 March 2018	31 December 2017
Social security payables	10,421	6,197
Payables to employees	3,904	11,764
Taxes and funds payable	1,862	6,333
Total	16,187	24,294

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

NOTE 14 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES (Continued)

e) Other current liabilities:

	31 March 2018	31 December 2017
Payables to shareholders	2,449	-
Tax and fund payable	599	1,709
Deferred special consumption tax	308	444
Other	680	589
Total	4,036	2,742

NOTE 15 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 March 2018	1 January - 31 March 2017
Domestic Sales	186,024	453,516
Export Sales	68,499	115,627
Gross Sales	254,523	569,143
Less: sales discounts and returns	(2,138)	(2,724)
Net sales	252,385	566,419

Sales of the Group for the periods ended 31 March 2018 and 2017 in terms of the products are as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Commercial vehicle	147,246	136,739
Armoured vehicle	38,874	334,405
Revenue of uncompleted contracts	23,896	40,891
Other (*)	42,369	54,384
Total	252,385	566,419

(*) It consists of spare parts, service and other sales revenues.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

NOTE 15 - REVENUE AND COST OF SALES (Continued)

Cost of sales

	1 January - 31 March 2018	1 January - 31 March 2017
Cost of finished goods sold	(176,749)	(403,219)
Cost of merchandise goods sold	(20,574)	(24,188)
Total	(197,323)	(427,407)

NOTE 16 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 March 2018	1 January - 31 March 2017
Marketing expenses	(42,301)	(59,138)
General administrative expenses	(18,144)	(18,283)
Research and development expenses	(12,302)	(10,921)
Total	(72,747)	(88,342)

NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 March 2018	1 January - 31 March 2017
Other operating income		
Foreign exchange gains on operating activities	132,821	104,112
Revenue from charge of due date receivables	6,238	4,784
Gain on forward transactions	3,055	8,573
Gain on incentives	485	539
Other	4,659	3,584
Total	147,258	121,592

	1 January - 31 March 2018	1 January - 31 March 2017
Other operating expenses		
Foreign exchange loss on operating activities	(128,265)	(98,872)
Loss on forward transactions	(9,280)	(5,662)
Expense on provision for uncollectible receivables	(2,107)	(1,237)
Other	(210)	(232)
Total	(139,862)	(106,003)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

NOTE 18 - FINANCIAL INCOME

	1 January - 31 March 2018	1 January - 31 March 2017
Interest income from time deposits	7,206	2,999
Foreign exchange gains on deposits	1,691	174
Total	8,897	3,173

NOTE 19 - FINANCIAL EXPENSES

	1 January - 31 March 2018	1 January - 31 March 2017
Interest expense on bank borrowings	(25,051)	(25,206)
Foreign exchange losses on deposits	(2,793)	(3,114)
Foreign exchange losses on bank borrowings	(1,519)	(3,968)
Other	(150)	(38)
Total	(29,513)	(32,326)

NOTE 20 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 22% (2017 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 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.

As of 31 March 2018 and 31 December 2017, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 March 2018	31 December 2017
Income tax payable	1,974	1,277
Less-prepaid tax (-)	(1,974)	(1,277)

Income tax payable

-

-

The breakdown of total tax expense for the periods ended 31 March 2018 and 2017 are as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Current tax charge	-	-
Deferred tax income		
Charged to profit for the period	3,180	-
Charged to other comprehensive income	333	384
Total	3,513	384

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 March 2018 and 31 December 2017, 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 March 2018	31 December 2017	31 March 2018	31 December 2017
R&D expenses	155,833	123,033	34,283	27,067
Property, plant and equipment	(7,813)	(7,723)	1,919	1,937
Intangible assets	(51,407)	(53,814)	(10,281)	(10,763)
Deferred financial expense	(971)	(453)	(214)	(100)
Inventories	1,036	996	230	213
Warranty provision	53,391	53,065	11,326	11,260
Provision for employment termination benefits	34,083	31,693	6,817	6,339
Deferred financial income	1,401	1,044	308	230
Other provisions	19,773	23,052	4,232	4,851
Deferred maintenance income	4,393	9,437	966	2,076
Due from customers on contract works	(2,713)	9,732	(597)	2,141
Other	5,651	25,566	1,130	1,355
Deferred tax assets, net			50,119	46,606

(*) 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 March 2018, the tax advantage of TRY155,833 (31 December 2017: TRY123,033), which the Company will use in the foreseeable future, has been recognized in the financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before was not been calculated since the case regarding the use of tax benefit of TRY133,194 for aforementioned years is still going on.

The movement of deferred tax asset for the periods ended 31 March 2018 and 2017 are as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
1 January	46,606	37,853
Deferred tax income:		
Charged to profit for the period	3,180	-
Charged to other comprehensive income	333	384
31 March	50,119	38,237

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NOTE 21 - 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 March 2018	31 March 2017
Net income attributable to shareholders (TRY)	(27,725)	37,148
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piaster)	(0.116)	0.155

NOTE 22 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances at 31 March 2018 and 31 December 2017:

Due from related parties	31 March 2018	31 December 2017
Ram Dış Ticaret A.Ş. (1) (*)	35,150	28,958
Ford Otosan A.Ş. (1), (2)	269	698
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	27	-
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	5	-
Total	35,451	29,656

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

Due to related parties	31 March 2018	31 December 2017
Zer Merkezi Hizmetler A.Ş. (1)	1,864	2,974
Ram Dış Ticaret A.Ş. (1)	1,827	2,996
Ram Sigorta Aracılık Hiz. A.Ş. (1)	1,646	133
Setur Servis Turistik A.Ş. (1)	547	618
Opet Fuchs Madeni Yağ A.Ş. (1)	489	106
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	452	378
Koç Holding A.Ş. (2)	302	5,353
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	141	10
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	128	213
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	126	596
Opet Petrolcülük A.Ş. (1)	95	150
Other (1)	98	567
Total	7,715	14,094

(1) Related parties of parent company

(2) Shareholder

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Advances received from related parties	31 March 2018	31 December 2017
Otokar Land Systems LLC’s subsidiary (Note 14)	423,495	404,513
	423,495	404,513

Deferred revenue from related parties	31 March 2018	31 December 2017
Otokar Land Systems LLC (Note 14)	27,992	28,040
	27,992	28,040

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

Product sales and service revenue	1 January - 31 March 2018	1 January - 31 March 2017
Ram Dış Ticaret A.Ş. (1) (*)	21,268	58,384
Other (1)	5	62
Total	21,273	58,446

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

Purchase of property, plant and equipment	1 January - 31 March 2018	1 January - 31 March 2017
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	397	529
Other (1)	12	1
Total	409	530

Inventories purchased	1 January - 31 March 2018	1 January - 31 March 2017
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	6,076	4,081
Ram Dış Ticaret A.Ş. (1)	1,953	931
Opet Petrolcülük A.Ş.(1)	926	740
Opet Fuchs Madeni Yağ A.Ş. (1)	701	514
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	474	685
Arçelik Pazarlama A.Ş. (1)	1	3,054
Other (1)	6	134
Total	10,137	10,139

(1) Related parties of parent company

(2) Shareholder

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January – 31 March 2018	1 January – 31 March 2017
Ram Dış Ticaret A.Ş.(1)	8,041	4,270
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	4,857	674
Ram Sigorta Aracılık Hz. A.Ş.(1)(**)	3,648	-
Setur Servis Turistik A.Ş.(1)	1,514	1,752
Otokoç Otomotiv Tic. ve San. A.Ş.(1)	1,325	1,190
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş.(1)	1,132	1,139
Koç Holding A.Ş. (2) (*)	830	974
Other (1)	261	697
Total	21,608	10,696

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

(**) It includes paid and accrued premium as of 31 March 2018 and 31 March 2017 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 March 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	492	1,821
- Demand deposits	4	3
Total	496	1,824

Checks and notes in collection	31 March 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)	4,132	4,119
Total	4,132	4,119

(1) Related parties of parent company

(2) Shareholder

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 31 March 2018 and 2017, financial income and expense with related parties

	1 January - 31 March 2018	1 January - 31 March 2017
Foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	5,728	6,400
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	3	19
Total	5,731	6,419

	1 January - 31 March 2018	1 January - 31 March 2017
Foreign exchange loss		
Ram Dış Ticaret A.Ş. (1)	98	3,246
Yapı Kredi Faktoring A.Ş. (1)	-	6,469
Other (1)	90	2,118
Total	188	11,833

For the periods ended 31 March 2018 and 2017, financial income and expense with related parties:

	1 January - 31 March 2018	1 January - 31 March 2017
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	7	98
Total	7	98

	1 January - 31 March 2018	1 January - 31 March 2017
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	23	198
Total	23	198

(1) Related parties of parent company

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 31 March 2018 and 2017, financial income and expense with related parties:

	1 January - 31 March 2018	1 January - 31 March 2017
Foreign exchange gains		
Yapı ve Kredi Bankası A.Ş. (1)	577	1,215
Total	577	1,215
	1 January - 31 March 2018	1 January - 31 March 2017
Foreign exchange loss		
Yapı ve Kredi Bankası A.Ş. (1)	683	1,806
Total	683	1,806

(1) Related parties of parent company

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the period ended 31 March 2018 amounted to TRY2,253 thousand (31 March 2017: TRY1,753 thousand). Executives are composed of board of directors members, general manager and assistants of general manager.

NOTE 23 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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 analysing the foreign currency position. Currency risk is monitored and limited by analysing 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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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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NOTE 23 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The recorded amounts of foreign currency assets and liabilities held by the Group are as follows, in terms of foreign currency:

31 March 2018	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	628,350	102,663	45,800	4
2a. Monetary financial assets (including cash, bank accounts)	219,889	55,124	454	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	8	2	-	-
4. Current assets (1+2+3)	848,247	157,789	46,254	4
5. Trade receivables	3,417	-	702	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	110	7	17	-
8. Non-current assets (5+6+7)	3,527	7	719	-
9. Total assets((4+8)	851,774	157,796	46,973	4
10. Trade payables	(50,485)	(7,774)	(4,047)	(16)
11. Financial liabilities	(48,678)	-	(10,001)	-
12a. Monetary other liabilities	(316,392)	(80,054)	(23)	(28)
12b. Non-monetary other liabilities	(4,395)	-	(903)	-
13. Current liabilities (10+11+12)	(419,950)	(87,828)	(14,974)	(44)
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	(423,495)	(107,244)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(423,495)	(107,244)	-	-
18. Total liabilities (13+17)	(843,445)	(195,072)	(14,974)	(44)
Net balance sheet position (9+18)	8,329	(37,276)	31,999	(40)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(11,951)	37,032	(32,500)	-
19a. Hedged total assets amount	146,236	37,032	-	-
19b. Hedged total liabilities amount	(158,187)	-	(32,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	(3,622)	(244)	(501)	(40)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	12,606	(37,285)	32,885	(40)
22. Total fair value of financial instruments used for foreign currency hedging	(11,951)	37,032	(32,500)	-
23. Export (as of 31 March 2018)	66,636	2,792	11,915	8
24. Import (as of 31 March 2018)	109,066	13,333	12,063	296

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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NOTE 23 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	589,040	90,131	55,035	111
2a. Monetary financial assets (including cash, bank accounts)	401,125	105,321	856	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	8	2	-	-
4. Current assets (1+2+3)	990,173	195,454	55,891	111
5. Trade receivables	3,847	-	852	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	103	7	17	-
8. Non-current assets (5+6+7)	3,950	7	869	-
9. Total assets(4+8)	994,123	195,461	56,760	111
10. Trade payables	(8,423)	(126)	(1,759)	(1)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(310,684)	(82,122)	(174)	(28)
12b. Non-monetary other liabilities	(9,487)	-	(2,101)	-
13. Current liabilities (10+11+12)	(328,594)	(82,248)	(4,034)	(29)
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	(404,513)	(107,244)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(404,513)	(107,244)	-	-
18. Total liabilities (13+17)	(733,107)	(189,492)	(4,034)	(29)
Net balance sheet position (9+18)	261,016	5,969	52,726	82
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(259,323)	(6,500)	(52,000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(259,323)	(6,500)	(52,000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	1,693	(531)	726	82
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	270,393	5,960	54,810	82
22. Total fair value of financial instruments used for foreign currency hedging	(1,325)	(72)	(1,253)	-
23. Export (as of 31 March 2017)	113,979	18,210	12,157	12
24. Import (as of 31 March 2017)	125,713	19,830	17,008	468

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NOTE 23 - 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 March 2018 and 31 December 2017:

31 March 2018	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TRY::</i>		
1- USD net asset/liability	(96)	96
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(96)	96
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	(244)	244
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(244)	244
<i>In case 10% appreciation of GBP against TRY</i>		
7- GBP net asset/liability	(22)	22
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(22)	22
Total (3+6+9)	(362)	362
31 December 2017	Profit before tax Appreciation of değer kazanması	Profit before tax Appreciation of foreign currency
<i>In case 10% appreciation of USD against TRY:</i>		
1- USD net asset/liability	(200)	200
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(200)	200
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	328	(328)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	328	(328)
<i>In case 10% appreciation of GBP against TRY:</i>		
7- GBP net asset/liability	42	(42)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	42	(42)
Total (3+6+9)	170	(170)

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2018

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NOTE 24 - 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 March 2018 and 31 December 2017:

31 March 2018

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	406	-	406
Total	-	406	-	406

31 December 2017

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,325	-	1,325
Total	-	1,325	-	1,325

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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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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NOTE 25 - SUBSEQUENT EVENTS

None.

**NOTE 26 - OTHER MATTERS WHICH ARE SIGNIFICANT TO THE CONSOLIDATED
FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE
PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE CONSOLIDATED
FINANCIAL STATEMENTS.**

None.

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