

Otokar Otomotiv ve Savunma Sanayi Anonim Őirketi

**Convenience translation into English of condensed
financial statements and explanatory notes for the
interim period between 1 January – 31 March 2014
(originally issued in Turkish)**

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Interim balance sheet as of March 31, 2014

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

		Current period (Not reviewed)	Prior period (Audited)
	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	3	60.938.912	8.884.174
Trade receivables	7	310.637.230	399.220.867
- Due from related parties	7,21	27.891.519	71.374.049
- Trade receivables, third parties	7	282.745.711	327.846.818
Other receivables		29.352	2.524
Inventories	8	363.129.806	297.797.165
Derivative financial assets	6	525.846	-
Prepaid expenses	13	76.117.873	74.985.116
Other current assets	13	9.516.845	17.053.925
Total current assets		820.895.864	797.943.771
Non-current assets			
Trade receivables	7	172.498.701	192.938.324
Other receivables		60.094	58.112
Estimated earnings in excess of billings on uncompleted contracts	9	99.209.157	93.597.289
Financial investments	4	239.280	239.280
Property, plant and equipment	10	117.662.278	120.842.623
Intangibles	11	128.247.632	126.292.737
Deferred tax asset	19	45.286.720	43.338.020
Total non-current assets		563.203.862	577.306.385
Total assets		1.384.099.726	1.375.250.156

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of these financial statements.

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

March 31, 2014 interim balance sheet

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

		Current period	Prior period
		(Not reviewed)	(Audited)
		March 31, 2014	December 31,
	Notes		2013
Liabilities			
Current liabilities			
Short term financial liabilities	5	148.290.831	138.276.975
Short term portion of long term financial liabilities	5	1.934.272	2.686.797
Derivative financial liabilities	6	-	1.231.950
Trade payables	7	171.126.601	102.434.509
- Due to related parties	7, 21	8.105.699	13.154.537
- Trade payables, third parties	7	163.020.902	89.279.972
Employee benefit obligations	13	6.480.582	19.143.540
Other payables	13	10.785.050	10.819.100
Deferred income	13	290.201.024	306.326.515
Government incentives and grants		1.100.718	1.467.624
Current income tax liabilities	19	3.055.359	7.043.047
Short term provisions	12	129.452.715	95.999.670
Other current liabilities	13	100.668.072	1.615.447
Total current liabilities		863.095.224	687.045.174
Non-current liabilities			
Financial liabilities	5	253.000.000	332.047.500
Government incentives and grants		7.055.794	7.055.794
Long term provisions	12	31.157.338	26.957.401
- Provision for employee benefits	12	24.756.451	20.616.223
- Other provisions	12	6.400.887	6.341.178
Deferred income	13	48.874.707	48.874.707
Total non-current liabilities		340.087.839	414.935.402
Shareholders' equity			
Parent Company's equity			
Paid-in share capital		24.000.000	24.000.000
Inflation adjustment on equity items		52.743.030	52.743.030
Restricted reserves		38.958.147	29.078.147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss		(5.050.059)	(3.551.453)
Retained earnings		61.119.856	74.438.113
Net income for the period		9.145.689	96.561.743
Total shareholders' equity		180.916.663	273.269.580
Total liabilities		1.384.099.726	1.375.250.156

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of these financial statements.

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Interim comprehensive income statement for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

		Current Period (Not reviewed)	Reclassified Prior Period (Not reviewed)
	Notes	March 31, 2014	March 31, 2013
Net sales	14	283.246.306	334.377.832
Cost of sales (-)	14	(225.100.883)	(260.362.543)
Gross profit		58.145.423	74.015.289
Marketing, sales and distribution expenses (-)		(24.560.781)	(23.357.433)
General administrative expense (-)		(10.184.745)	(10.751.902)
Research and development expenses (-)		(7.709.378)	(5.895.852)
Other operating income	15	40.410.739	24.921.525
Other operating expense (-)	16	(34.324.665)	(20.885.054)
Operating profit		21.776.593	38.046.572
Income from investment activities		35.304	92.339
Expenses from investment activities(-)		-	-
Operating income before financial expense		21.811.897	38.138.911
Financial income	17	5.422.454	515.831
Financial expense (-)	18	(16.610.318)	(8.166.649)
Income before tax		10.624.033	30.488.094
Tax income/expense			
- Tax expense for the period (-)	19	(3.052.392)	(9.610.901)
- Deferred tax income/ (expense)	19	1.574.048	5.244.912
Net income		9.145.689	26.122.105
Actuarial loss arising from employee benefits		(1.873.258)	(1.091.467)
Tax effect		374.652	272.867
Other comprehensive income/ (expense) after tax		(1.498.606)	(818.600)
Total comprehensive income		7.647.083	25.303.505
Earnings per share (kr)	20	0,038	0,109

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of these financial statements.

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Interim statement of change in equity for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

			Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss				
	Paid-in share capital	Inflation adjustment on equity items	Restricted reserves	Actuarial gains and losses related to employee benefits	Retained earnings	Net income for the period	Total shareholders' equity
1 January 2013	24.000.000	52.743.030	22.798.147	(2.526.430)	66.441.516	78.276.597	241.732.860
Transfer to retained earnings	-	-	-	-	78.276.597	(78.276.597)	-
Transfer to restricted reserves	-	-	6.280.000	-	(6.280.000)	-	-
Dividend paid	-	-	-	-	(64.000.000)	-	(64.000.000)
Net profit for the period	-	-	-	-	-	26.122.105	26.122.105
Other comprehensive income/(expense)	-	-	-	(818.600)	-	-	(818.600)
Total comprehensive income	-	-	-	(818.600)	-	26.122.105	25.303.505
31 March 2013	24.000.000	52.743.030	29.078.147	(3.345.030)	74.438.113	26.122.105	203.036.365
1 January 2014	24.000.000	52.743.030	29.078.147	(3.551.453)	74.438.113	96.561.743	273.269.580
Transfer to retained earnings	-	-	-	-	96.561.743	(96.561.743)	-
Transfer to restricted reserves	-	-	9.880.000	-	(9.880.000)	-	-
Dividend paid	-	-	-	-	(100.000.000)	-	(100.000.000)
Net profit for the period	-	-	-	-	-	9.145.689	9.145.689
Other comprehensive income/(expense)	-	-	-	(1.498.606)	-	-	(1.498.606)
Total comprehensive income	-	-	-	(1.498.606)	-	9.145.689	7.647.083
31 March 2014	24.000.000	52.743.030	38.958.147	(5.050.059)	61.119.856	9.145.689	180.916.663

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of these financial statements.

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Interim cash flow statement for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

		(Not reviewed)	<i>Reclassified</i> (Not reviewed)
		Current Period	Prior Period
	Notes	March 31, 2014	March 31, 2013
Cash flows from operating activities			
Income before taxes		10.624.033	30.488.094
Adjustments to reconcile income before taxes to net cash flows from operating activities:			
Depreciation and amortization	10,11	11.443.339	9.739.353
Provision for retirement pay liability		2.087.740	1.067.258
Warranty provision expenses	12	6.297.781	5.437.385
Gain on sale of property, plant and equipment		(35.304)	(92.339)
Loan interest expense	18	7.214.975	6.765.104
Unrealised foreign exchange (income) / loss incurred from borrowings		1.060.500	-
Demand deposit interest income	17	(439.828)	(42.687)
Provision for doubtful receivables	7,16	625.088	624.651
Loss/ (gain) on forward transactions, net		3.338	(8.826.271)
Operating profit before changes in operating asset and liabilities		38.881.662	45.160.548
Trade and other receivables		108.369.362	(122.037.701)
Estimated earnings in excess of billings on uncompleted contracts		(5.611.868)	(1.200.013)
Inventories		(65.332.641)	(30.601.585)
Other current assets		50.046.220	(2.896.485)
Trade payables		68.692.092	15.655.614
Other current liabilities		104.455.463	73.092.718
Realized gain from forward transactions, net		(1.761.134)	5.109.140
Income taxes paid		(50.681.977)	(9.576.794)
Warranties paid	12	(6.206.203)	(5.224.046)
Employee termination benefits paid	12	(991.842)	(838.546)
Net cash (used in)/provided by operating activities		239.859.134	(33.357.150)
Cash flows from investing activities			
Cash paid for acquisition of property, plant and equipment	10	(1.182.952)	(1.968.390)
Cash paid for acquisition of intangible assets	11	(9.378.869)	(15.225.611)
Proceeds from sale of property, plant and equipment		379.236	382.491
Net cash used in investing activities		(10.182.585)	(16.811.510)
Cash flows from financing activities			
Proceeds from bank borrowings		176.557.936	116.244.895
Repayments of bank borrowings		(255.011.267)	(42.028.308)
Interest payments		391.692	(3.373.354)
Interest received		439.828	42.687
Dividends paid		(100.000.000)	(64.000.000)
Net cash provided by financing activities		(177.621.811)	6.885.920
Net (decrease)/increase in cash and cash equivalents		52.054.738	(43.282.740)
Cash and cash equivalents at the beginning of the period		8.884.174	47.906.245
Cash and cash equivalents at the end of the period		60.938.912	4.623.505

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of these financial statements.

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the interim financial statements for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

1. Organization and nature of operations

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

The Company operates in the automotive industry and off road vehicles, armoured vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production. The number of the personnel in the Company is 2.341. (December 31, 2013 – 2.264).

The registered addresses of the Company are as follows:

Headquarters:

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

Factory

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

The Company has a subsidiary named "Otokar Europe SAS" with a capital of Euro 100.000, established on August 18, 2011 for the purpose of organizing export activities and increasing export sales. Since “Otokar Europe SAS” operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value. (Note 4).

Condensed financial statements as of March 31, 2014 and for the period then ended have been authorized for issue by the Board of Directors of the Company on April 25, 2014 by taking the opinion of Audit Committee and signed by Ahmet Serdar Görgüç, General Manager and Hüseyin Odabaş, Financial Vice General Manager on behalf of Board of Directors of the Company. The Board of Directors have the power to amend the financial statements after issue.

The Company conducts part of its business transactions with the Koç Holding A.Ş. and related parties. There are certain related parties which are both customers and vendors of the Company. The Company is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul (“BIST”), previously Istanbul Stock Exchange (“ISE”) since 1996. As of March 31, 2014, the shares listed on the BIST are 27.02 % of the total shares.

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

	%
Koç Holding A.Ş.	44.68
Ünver Holding A.Ş.	24.81
Other	30.51
	100.00

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

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

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the interim financial statements for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

2. Basis of presentation of financial statements

2.1 Basis of presentation

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

The condensed interim financial statements for the three month period ended March 31, 2014 have been prepared in accordance with TAS 34 Interim Financial Reporting. The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual financial statements as of December 31, 2013.

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

The financial statements have been prepared from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with Turkish Accounting Standards as prescribed by POA.

Functional and presentation currency

Functional and presentation currency of the Company is TL.

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

2.2 Comparative information and reclassification in prior period financial statements

Based on the decision taken on June 7, 2013 by the CMB at its meeting numbered 20/670, a new illustrative financial statement and guidance to it has been issued effective from the interim periods ended after March 31, 2013, which is applicable for the companies that are subject to Communiqué on the Principles of Financial Reporting in Capital Markets. Based on these new illustrative financial statements, a number of changes were made at the Company’s financial statement and comprehensive income table.

The reclassifications made at the Company’s comprehensive income statement for the period ended March 31, 2013 are as follows:

- Income from sales of fixed assets amounting to TL 92.339 is reclassified from other operating income to income from investing activities,
- Foreign exchange losses and foreign exchange gains amounting to TL 17.807.649 and TL 11.018.658 respectively related to trade receivables and payables, are reclassified from financial expense and financial income accounts to other operating expenses and operating income, respectively.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the interim financial statements for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

- Maturity difference income amounting to TL 1.291.830 is reclassified from financial income to other operating income.
- Foreign exchange losses and gains amounting to TL 2.444.714 and TL 11.270.986 arising from forward transactions the Company entered against exchange risk of receivables is reclassified from financial expense and financial income accounts to other operating expenses and operating income inline with the reclassification of foreign exchanges losses and gains arising from trade receivables.

2.3 Changes in accounting policies

The new standards, amendments and interpretations

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

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

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

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the TAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014. These amendments did not have an impact on the interim condensed financial statements of the Company.

TRFS Interpretation 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after 1 January 2014, with early application permitted. Retrospective application of this interpretation is required. The interpretation is not applicable for the Company and did not have any impact on the financial position or performance of the Company.

Amendments to TAS 36 - (Recoverable Amount Disclosures for Non-Financial assets)

As a consequential amendment to TFRS 13 Fair Value Measurement, some of the disclosure requirements in TAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets has been modified. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. These amendments did not have an impact on the interim condensed consolidated financial statements of the Company.

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the interim financial statements for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Amendments to TAS 39 - Novation of Derivatives and Continuation of Hedge Accounting

Amendments to TAS 39 Financial Instruments: Recognition and Measurement, provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. These amendments did not have an impact on the interim condensed consolidated financial statements of the Company.

TFRS 10 Consolidated Financial Statements (Amendment)

TFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with TFRS. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. This amendment does not have any impact on the financial position or performance of the Company.

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

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

TFRS 9 Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new TFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company .

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

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

IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging relationships. The standard does not have a mandatory effective date, but it is available for application now; a new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The mandatory effective date of IFRS 9 has tentatively been decided as for annual periods beginning on or after 1 January 2018.The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the interim financial statements for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

Improvements to IFRSs

In December 2013, the IASB issued two cycles of Annual Improvements to IFRSs – 2010–2012 Cycle and IFRSs – 2011–2013 Cycle. Other than the amendments that only affect the standards' Basis for Conclusions, the changes are effective for annual reporting periods beginning on or after 1 July 2014.

Annual Improvements to IFRSs – 2010–2012 Cycle

IFRS 2 Share-based Payment:

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

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

IFRS 13 Fair Value Measurement

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

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

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

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

IAS 24 Related Party Disclosures

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

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Notes to the interim financial statements for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

2. Basis of presentation of financial statements (Continued)

Annual Improvements – 2011–2013 Cycle

IFRS 3 Business Combinations

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

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

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

IAS 40 Investment Property

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

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

IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

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

(Convenience translation of condensed interim financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the interim financial statements for the period ended March 31, 2014
(Currency –Turkish Lira (TL) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies

There has been no significant change in accounting policies present in December 31, 2013 financial statements except the changes provided in Note 2.2.

2.5 Segment reporting

Financial statements of the Otokar Europe SAS have not been consolidated to financial statements of the Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi since the operations of the Otokar Europe SAS company have not had significant effect on the financial statements of the Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi as specified in Note 4 and has been presented at historical cost. As a consequence of this, the Company follows its operations in one segment, does not have different geographical and operational segments and the Company does not prepare segment reporting.

3. Cash and cash equivalents

	March 31, 2014	December 31, 2013
Cash at banks		
- Demand deposits	435.889	1.921.397
- Time deposits	57.724.400	4.071.425
Cheques and notes received	2.738.819	2.862.136
Other	39.804	29.216
Total	60.938.912	8.884.174

As of March 31, 2014, effective interest rate of time deposits which are amounting to TL 57.724.400 is annually 9,64% and the maturity is 1 day. TL 12.649.400 of this amount is foreign currency. (As of December 31, 2013, effective interest rate of time deposits which are originally foreign amounting to TL 1.321.425 is annually 4.21% and the maturity is 2 day.)

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

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

4. Financial investments

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

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5. Financial liabilities

			March 31, 2014
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL	3 April 2014 - 9 March 2015	8,55-11,36	102.583.118
Denominated in Euro	9 February 2015	2,04	45.707.713
Payments of the long-term bank borrowings and interest accruals(*)			
Denominated in TL	1 April 2015 - 31 March 2017	8,36-13,45	1.934.272
Total			150.225.103

			March 31, 2014
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)(**)			
Denominated in TL	1 April 2015 - 31 March 2017	8,36-13,45	253.000.000
Total			253.000.000

(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 843.

			December 31, 2013
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL	2 January 2014 - 25 July 2014	11,36	32.048.744
Denominated in Euro	2 January 2014	2,59-2,64	106.228.231
Payments of the long-term bank borrowings and interest accruals(*)			
Denominated in TL	26 January 2015 - 3 June 2016	8,36-11,90	2.326.037
Denominated in Euro	9 February 2015	2,04	360.760
Total			140.963.772

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

(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 828.

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

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6. Derivative financial instruments

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

	Contract amount	Current Period	Fair values
		Contract maturity	Assets
31 March 2014:			
Forward transactions	180.432.000	3 April 2014 - 8 May 2014	525.846
Short-term derivative financial instruments	180.432.000		525.846
Total derivative financial instruments	180.432.000		525.846

	Contract amount	Prior Period	Fair values
		Contract maturity	Liabilities
31 December 2013:			
Forward transactions	170.169.265	9 January 2014 – 13 February 2014	(1.231.950)
Short-term derivative financial instruments	170.169.265		(1.231.950)
Total derivative financial instruments	170.169.265		(1.231.950)

7. Trade receivables and payables

Trade receivables

	March 31, 2014	December 31, 2013
Trade receivables, net	177.411.138	247.876.807
Notes receivables, net	127.920.594	101.931.133
	305.331.732	349.807.940
Less: provision for doubtful receivables	(22.586.021)	(21.961.122)
Other short-term trade receivables	282.745.711	327.846.818
Trade receivables from related parties	27.891.519	71.374.049
Short-term trade receivables	310.637.230	399.220.867
Long-term trade receivables, net	160.327.626	178.669.298
Long-term notes receivable, net	12.171.075	14.269.026
Long-term trade receivables	172.498.701	192.938.324

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7. Trade receivables and payables (continued)

Guarantees received for trade receivables

Receivables of the Company mainly relate to the sales to the minibus and bus dealers, trailer sales via notes received. As of March 31, 2014, the total trade receivable from dealers amounting to TL 87.763.785 (December 31, 2013 - TL 47.451.597), after provision reserved for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 120.778.500 (December 31, 2013 - TL 115.573.500).

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

31 March 2014	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due(*)	391.949
Over 5 year past due	-
Total	391.949
Amount secured with guarantee (1)	390.656

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

(1) Pledges on trailers.

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

	31 March 2014	31 March 2013
1 January	21.961.122	19.747.448
Foreign currency translation difference	(189)	(290.206)
Addition during the year	625.088	624.651
Total	22.586.021	20.081.893

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

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7. Trade receivables and payables (continued)

Trade payables

	March 31, 2014	December 31, 2013
Trade payables, net	162.813.302	89.077.102
Notes payables, net	207.600	202.870
Short-term trade payables	163.020.902	89.279.972
Trade payables to related parties	8.105.699	13.154.537
Short-term trade payables	171.126.601	102.434.509

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

8. Inventories

	March 31, 2014	December 31, 2013
Raw material	153.912.063	126.204.804
Work-in-process	15.252.283	3.974.688
Finished goods	61.420.317	42.478.530
Merchandise	49.369.106	43.191.637
Goods in transit	84.480.509	83.251.978
(* Impairment for inventories (-))	(1.304.472)	(1.304.472)
Total	363.129.806	297.797.165

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

9. Costs and billings on uncompleted contracts and other payables

Receivable from Costs and estimated earnings in excess of billings on uncompleted contracts is amounting to TL 99.209.157 as of March 31, 2014 (December 31, 2013 – TL 93.597.289) after netting with short term advance taken.

As of March 31, 2014, the short term advances taken by the Company related with ongoing projects which amounts to TL 206.312.092 was included in deferred revenues in the financial statements (December 31, 2013 – TL 232.113.373). Rest of the amount TL 49.155.961 which is included in deferred income is composed of other advance taken from customer (December 31, 2013 – TL 36.402.368) and deferred maintenance revenue amounting to TL 34.732.971 (December 31, 2013 – TL 37.810.773).

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Notes to the interim financial statements for the period ended March 31, 2014
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10. Property, plant and equipment

For the periods ended March 31, 2014 and March 31, 2013 the movement of property, plant and equipment and the accumulated depreciation is as follows:

	1 January 2014	Additions	Disposals	Transfers	31 March 2014
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land improvements	11.309.351	1.977	-	-	11.311.328
Buildings	60.170.668	-	-	-	60.170.668
Machinery, equipment and installations	111.943.555	300.944	(3.417)	9.390	112.250.472
Motor vehicles	7.957.194	209.209	(423.997)	-	7.742.406
Furniture and fixtures	31.761.624	433.178	(1.730)	8.020	32.201.092
Leasehold improvements	2.734.585	-	-	60.599	2.795.184
Construction in progress	1.778.321	237.644	-	(78.009)	1.937.956
	265.112.044	1.182.952	(429.144)	-	265.865.852
Accumulated depreciation:					
Land improvements	4.654.789	379.130	-	-	5.033.919
Buildings	29.073.222	704.502	-	-	29.777.724
Machinery, equipment and installations	86.240.277	1.943.620	(3.416)	-	88.180.481
Motor vehicles	4.071.036	171.452	(80.556)	-	4.161.932
Furniture and fixtures	18.760.344	732.595	(1.240)	-	19.491.699
Leasehold improvements	1.469.753	88.066	-	-	1.557.819
	144.269.421	4.019.365	(85.212)	-	148.203.574
Net book value	120.842.623		(343.932)		117.662.278
	1 January 2013	Additions	Disposals	Transfers	31 March 2013
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land improvements	10.068.228	-	-	-	10.068.228
Buildings	59.598.896	-	-	-	59.598.896
Machinery, equipment and installations	108.789.029	469.996	(1.000)	-	109.258.025
Motor vehicles	8.703.831	251.178	(419.997)	-	8.535.012
Furniture and fixtures	27.791.048	719.275	(47.107)	-	28.463.216
Leasehold improvements	1.737.346	23.842	-	-	1.761.188
Construction in progress	867.007	504.099	-	-	1.371.106
	255.012.131	1.968.390	(468.104)	-	256.512.417
Accumulated depreciation:					
Land improvements	3.169.967	368.777	-	-	3.538.744
Buildings	26.329.510	683.981	-	-	27.013.491
Machinery, equipment and installations	78.767.835	1.967.302	(866)	-	80.734.271
Motor vehicles	3.798.622	188.111	(140.954)	-	3.845.779
Furniture and fixtures	16.542.448	565.401	(36.132)	-	17.071.717
Leasehold improvements	1.291.595	47.520	-	-	1.339.115
	129.899.977	3.821.092	(177.952)	-	133.543.117
Net book value	125.112.154				122.969.300

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10. Property, plant and equipment (continued)

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

	March 31, 2014	March 31, 2013
Research and development expenses	6.992.930	5.513.122
Costs related to uncompleted contracts	1.849.672	1.759.458
Cost of goods sold	1.351.982	1.249.119
Development projects in process	463.933	426.783
Depreciation on outstanding inventories	175.847	306.582
General administrative expenses	351.810	288.532
Selling and marketing expenses	257.165	195.757
Total	11.443.339	9.739.353

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

	March 31, 2014	December 31, 2013
Machinery, equipment and installations	66.487.226	65.632.260
Motor vehicles	2.588.360	2.588.360
Furniture and fixtures	12.146.408	12.135.350
Leasehold improvements	1.120.006	1.120.006
	82.342.000	81.475.976

11. Intangible assets

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

	1 January 2014	Additions	Transfers	31 March 2014
Cost:				
Other intangible assets	12.289.381	150.757	-	12.440.138
Development costs	147.369.338	-	-	147.369.338
Development projects in process	35.639.826	9.228.112	-	44.867.938
	195.298.545	9.378.869	-	204.677.414
Accumulated amortization:				
Other intangible assets	8.371.380	431.044	-	8.802.424
Development costs	60.634.428	6.992.930	-	67.627.358
	69.005.808	7.423.974	-	76.429.782
Net book value	126.292.737			128.247.632

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11. Intangible assets (continued)

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

	1 January 2013	Additions	31 March 2013
Cost:			
Other intangible assets	10.181.064	66.775	10.247.839
Development costs	114.200.265	-	114.200.265
Development projects in process	19.674.691	15.158.836	34.833.527
	144.056.020	15.225.611	159.281.631
Accumulated amortization:			
Other intangible assets	6.882.799	405.139	7.287.938
Development costs	37.131.351	5.513.122	42.644.473
	44.014.150	5.918.261	49.932.411
Net book value	100.041.870		109.349.220

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

	March 31, 2014	December 31, 2013
Other intangible assets	6.157.438	6.131.494
R&D expenses (amortized)	5.848.347	5.848.347
	12.005.785	11.979.841

12. Provisions, contingent assets and liabilities

Provisions – short term

	March 31, 2014	December 31, 2013
Provision for other costs (*)	104.094.015	76.011.181
Warranty provision	18.946.849	18.914.980
Cost provision of imported goods	747.901	135.774
Staff bonus provisions	1.755.000	-
Provision for sales commissions	3.331.112	735.433
Other provisions	577.838	202.302
Total	129.452.715	95.999.670

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

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12. Provisions, contingent assets and liabilities (continued)

Provisions – long term

	March 31, 2014	December 31, 2013
Warranty provision	6.400.887	6.341.178
Total	6.400.887	6.341.178

Warranty provision

Warranty provision movement is as follow:

	31 March 2014	31 March 2013
January 1	25.256.158	17.835.439
Additional provision	6.297.781	5.437.385
Realized payments	(6.206.203)	(5.224.046)
As of March 31	25.347.736	18.048.778

Employee benefits

	March 31, 2014	December 31, 2013
Provision for retirement pay liability	19.142.298	16.173.142
Provision for vacation pay liability	5.614.153	4.443.081
Total	24.756.451	20.616.223

Reserve for retirement pay

The retirement pay liability as at 31 March 2014 is subject to a ceiling of full TL 3.438 (31 December 2013 – full TL 3.254) per monthly salary for each service year.

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

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

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

	March 31, 2014	December 31, 2013
Net discount rate (%)	4,78	4,78
Turnover rate to estimate the probability of retirement (%)	1,49	2,66

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12) 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 reserve for retirement pay are as follows:

	31 March 2014	31 March 2013
January 1	16.173.142	13.716.119
Interest expense	365.918	1.371.612
Current year provision	1.721.822	(304.357)
Actuarial loss	1.873.258	1.091.467
Payments	(991.842)	(838.546)
As of March 31	19.142.298	15.036.295

Provision for vacation pay liability

The movements of reserve for vacation pay are as follows:

	31 March 2014	31 March 2013
January 1	4.443.081	3.313.961
Net increase	1.171.072	709.092
	5.614.153	4.023.053

Commitments and contingencies

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

Guarantees given by the Company	March 31, 2014	December 31, 2013
a. Total amount of guarantees, pledges and mortgages given in the name of legal entity	734.055.905	796.640.829
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation.	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations.	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	734.055.905	796.640.829

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

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12. Provisions, contingent assets and liabilities (continued)

	Original currency	March 31, 2014		December 31, 2013	
		TL	Original currency	TL	Original currency
USD	238.539.730	522.354.300	274.909.369	586.739.066	
EUR	38.742.457	116.506.318	40.592.173	119.198.916	
SAR	22.000.000	12.845.800	22.000.000	12.519.320	
TL	82.349.487	82.349.487	78.183.527	78.183.527	
		734.055.905		796.640.829	

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

	March 31, 2014	December 31, 2013
Guarantee letters given		
Under secretariat of Ministry of Defence	432.560.461	421.597.311
Other	301.495.444	375.043.518
	734.055.905	796.640.829

Letters of guarantees

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

	March 31, 2014	December 31, 2013
Bank letters of guarantee (*)	734.055.905	796.640.829
	734.055.905	796.640.829

(*) Bank letter of guarantee amounting to TL 432.560.461 are given to Under Secretariat of Ministry of Defence within the scope of Altay Project. (December 31, 2013 – TL 421.597.311)

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

	March 31, 2014	December 31, 2013
Bank letters of guarantee (**)	343.803.309	331.750.195
Guarantee notes	37.986.369	37.121.748
Mortgages received	842.000	842.000
Guarantee cheques	-	280.000
	382.631.678	369.993.943

(**) Bank letters of guarantee amounting to TL 150.227.485 are obtained from the sub-contractors for Altay Project (December 31, 2013 - TL 146.570.489).

Contingent assets

The case of tax deduction related to R&D discount for the R&D activities in 2010 has ended on behalf of the Company and TL 2.923.627 has been returned to the Company. For the same case of 2011, it is subject to legal case and is in appeal phase. The expected return amount of 2011 is TL 3.963.320. The case has been opened for the year 2012 and the expected amount is TL 12.517.001.

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

a) Prepaid expenses:

	March 31,2014	December 31, 2013
Advances given	71.885.017	70.119.606
Prepaid expenses	4.232.856	4.865.509
Total	76.117.873	74.985.115

b) Other current assets:

	March 31,2014	December 31, 2013
Value added tax receivables	7.932.792	16.242.267
Other	1.584.053	811.658
Total	9.516.845	17.053.925

c) Deferred income

Deferred income-short term	March 31,2014	December 31, 2013
Deferred maintenance revenues (*)	34.732.971	37.810.773
Advances taken	255.468.053	268.515.741
Total	290.201.024	306.326.514

Deferred income-long term	March 31,2014	December 31, 2013
Deferred maintenance revenues (*)	48.874.707	48.874.707
Total	48.874.707	48.874.707

(*) Composed of deferred repair maintenance income for sold vehicles via agreements signed.

d) Employee benefit obligations

	March 31,2014	December 31, 2013
Payable to personnel	2.123.843	10.450.853
Social security premium payables	3.449.398	3.393.459
Taxes and funds payable	907.341	5.299.228
Total	6.480.582	19.143.540

e) Other short term liabilities

	March 31,2014	December 31, 2013
Due to shareholders	100.000.927	927
Taxes and funds payables	318.662	827.468
Deferred special consumption tax	10.104	447.325
Other	338.379	339.727
Total	100.668.072	1.615.447

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14. Sales and cost of sales

Net sales

	1 January – 31 March 2014	1 January – 31 March 2013
Domestic sales	275.784.433	272.383.840
Export sales	7.841.396	62.136.020
Gross sales	283.625.829	334.519.860
Less: sales discounts and sales returns	(379.523)	(142.028)
Net sales	283.246.306	334.377.832

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

	1 January – 31 March 2014	1 January – 31 March 2013
Commercial vehicle	157.653.643	200.601.789
Armoured vehicles	55.884.000	81.620.084
Other sales (*)	69.708.663	52.155.959
	283.246.306	334.377.832

(*) TL 45.168.750 of this amount is related to revenues of uncompleted contracts (31 March 2013 - 26.661.000 TL).

Cost of sales

	1 January – 31 March 2014	1 January – 31 March 2013
Cost of finished goods sold	215.646.145	248.526.663
Cost of merchandise sold	9.454.738	11.835.880
Cost of sales	225.100.883	260.362.543

15. Other operating income

Other operating income	1 January – 31 March 2014	1 January – 31 March 2013
Foreign exchange gain from trade receivable/ payables	31.831.861	11.018.658
Forward transaction income	1.705.413	11.270.986
Maturity difference income	5.031.070	1.291.830
Incentive income	366.906	167.630
Other	1.475.489	1.172.421
Total	40.410.739	24.921.525

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16. Other operating expense

Other operating expense	1 January – 31 March 2014	1 January – 31 March 2013
Foreign exchange loss from trade receivable/ payables	(31.892.358)	(17.807.649)
Forward transaction expenses	(1.708.751)	(2.444.714)
Provision for doubtful receivables	(625.088)	(624.651)
Other	(98.468)	(8.040)
Total	(34.324.665)	(20.885.054)

17. Financial income

	1 January – 31 March 2014	1 January – 31 March 2013
Interest income from time deposits	439.828	42.687
Foreign exchange gains on deposits	871.526	473.144
Foreign exchange gains on bank borrowings	4.111.100	-
Total	5.422.454	515.831

18. Financial expense

	1 January – 31 March 2014	1 January – 31 March 2013
Interest expense on bank borrowings	(7.214.975)	(6.765.104)
Foreign exchange losses on deposits	(1.041.543)	(1.401.545)
Foreign exchange losses on bank borrowings	(8.353.800)	-
Total	(16.610.318)	(8.166.649)

19. Tax assets and liabilities

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

In Turkey, the corporation tax rate is 20% (December 31,2013 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

	March 31, 2014	December 31, 2013
Income tax payable	43.641.898	43.641.898
(-) Prepaid tax	(40.586.539)	(36.598.851)
Income tax payable, net	3.055.359	7.043.047

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19. Tax assets and liabilities (continued)

The breakdown of total tax expense for the periods ended March 31, 2014 and 2013:

	1 January – 31 March 2014	1 January – 31 March 2013
Current tax charge	(3.052.392)	(9.610.901)
Deferred tax income		
-Tax charged to profit for the period	1.574.048	5.244.912
-Tax charged to other comprehensive income/expense	374.652	272.867
Total tax income / (expense)	(1.103.692)	(4.093.122)

As of March 31, 2014 and December 31, 2013, 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)	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Property, plant and equipment	(11.729.498)	(12.975.519)	1.135.395	886.191
Intangibles	(19.421.703)	(20.553.326)	(3.884.341)	(4.110.665)
Deferred financial expense	(1.252.944)	(501.791)	(250.589)	(100.358)
Inventories	1.285.299	1.373.503	257.060	274.701
Warranty provision	25.347.736	25.256.158	5.069.547	5.051.232
Reserve for retirement pay	19.142.298	16.173.142	3.828.460	3.234.628
Deferred financial income	17.381.851	18.051.122	3.476.370	3.610.224
Other provisions	11.370.761	6.948.144	2.274.152	1.389.629
Deferred maintenance income	83.607.678	86.685.480	16.721.536	17.337.095
Adjustment for percentage of completion method on construction projects	78.799.189	71.706.219	15.759.838	14.341.244
Other	4.496.460	7.120.490	899.292	1.424.099
Deferred tax asset			45.286.720	43.338.020

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

	31 March 2014	31 March 2013
January 1	43.338.020	11.092.336
Deferred tax income		
-Tax charged to profit for the period	1.574.048	5.244.912
-Tax charged to other comprehensive income/expense	374.652	272.867
	45.286.720	16.610.115

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20. 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.

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.

	March 31, 2014	March 31, 2013
Net income attributable to shareholders (TL)	9.145.689	26.122.105
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (kuruş)	0,038	0,109

21. Related party disclosures

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

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

Due from related parties	March 31, 2014	December 31, 2013
Ram Dış Ticaret A.Ş. (1) (*)	21.745.456	63.946.381
Otokar Europe SAS (3)	5.731.494	6.566.672
Ford Otosan A.Ş. (2)	413.595	32.773
Other (1)	974	828.223
Total	27.891.519	71.374.049

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

(1) Related parties of parent company

(2) Shareholder

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

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21. Related party disclosures (continued)

Due to related parties	March 31, 2014	December 31, 2013
Ram Dış Ticaret A.Ş. (1)	4.832.869	6.691.466
Zer Merkezi Hizmetler A.Ş. (1)	1.098.295	2.273.182
Ram Sigorta Aracılık Hz. A.Ş. (1)	637.286	202.176
Eltek Elektrik Enerji İth.İhr.Top.Tic. A.Ş.(1)	433.033	372.365
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	280.115	271.553
Opet Fuchs Madeni Yağ A.Ş. (1)	237.791	280.439
Setur Servis Turistik A.Ş.(1)	184.476	732.046
Koç Holding A.Ş. (2)	180.943	74.846
Koçtaş Yapı Marketleri A.Ş.(1)	165.195	353.820
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	38.910	1.573.987
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	8.505	235.919
Koç Üniversitesi (1)	7.907	-
Opet Petrolcülük A.Ş. (1)	374	91.401
Other (1)	-	1.337
Total	8.105.699	13.154.537

ii) Major sales and purchase transactions with related parties for the periods ended March 31, 2014 and March 31, 2013 :

Product sales and service revenue	March 31, 2014	March 31, 2013
Otokar Europe SAS (3)	2.622.062	606.054
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	1.865.970	1.585.514
Ram Dış Ticaret A.Ş.(1) (*)	1.369.391	59.137.803
Aygaz A.Ş.(1)	2.132	52.426
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	551	-
Ford Otosan A.Ş.(2)	152	162
Arçelik A.Ş.(1)	-	122.850
Total	5.860.258	61.504.809

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

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

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21. Related party disclosures (continued)

Purchase of property, plant and equipment	March 31, 2014	March 31, 2013
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	417.183	102.422
Otokoç Otomotiv Tic.ve San. A.Ş.(1)	65.563	59.779
Koçtaş Yapı Marketleri A.Ş. (1)	9.383	44.740
Arçelik A.Ş. (1))	1.330	2.289
Zer Merkezi Hizmetler A.Ş. (1)	569	6.416
Total	494.028	215.646

Inventory purchases	March 31, 2014	March 31, 2013
Zer Merkezi Hizmetler A.Ş. (1)	3.467.122	2.014.040
Ram Dış Ticaret A.Ş. (1)	1.678.729	1.270.768
Akpa Dayanımlı Tük.Paz. A.Ş. (1)	750.846	1.167.935
Opet Fuchs Madeni Yağ A.Ş.(1)	498.773	304.255
Opet Petrolcülük A.Ş.(1)	466.908	365.305
Koçtaş Yapı Marketleri A.Ş.(1)	406.184	327.479
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	95.328	98.904
Arçelik A.Ş. (1)	2.466	4.019
Total	7.366.356	5.552.705

Services purchases	March 31, 2014	March 31, 2013
Ram Dış Ticaret A.Ş. (1)	1.288.901	3.770.249
Eltek Elektrik Enerji İth.İhr.Top.Tic. A.Ş.(1)	1.116.094	-
Setur Servis Turistik A.Ş. (1)	947.854	795.546
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	678.062	323.854
Otokoç Otomotiv Tic. ve San. A.Ş.(1)	555.088	423.032
Koç Holding A.Ş. (2)	468.866	433.510
Otokar Europe SAS (3)	129.587	211.210
Koç Üniversitesi (1)	27.814	53.344
Vehbi Koç Vakfı Amerikan Hastanesi (1)	4.296	768
Divan Turizm İşletmeleri A.Ş. (1)	3.248	583
Ram Sigorta Aracılık Hz. A.Ş. (1) (*)	2.022	50.809
Promena Elektronik Ticaret A.Ş.(1)	-	20.089
Total	5.221.832	6.082.994

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

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

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21. Related party disclosures (continued)

Bank deposits	March 31, 2014	December 31, 2013
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	250.468	1.680.822
- Time deposits	-	2.750.000
Total	250.468	4.430.822

Checks and notes in collection	March 31, 2014	December 31, 2013
Yapı ve Kredi Bankası A.Ş. (1)	22.529.918	33.393.531
Total	22.529.918	33.393.531

Borrowings	March 31, 2014	December 31, 2013
Yapı ve Kredi Bankası A.Ş. (1)	45.707.715	47.093.434
Total	45.707.715	47.093.434

For the periods ended March 31, other income and expense with related parties:

Exchange gain from trade receivables and payables	March 31, 2014	March 31, 2013
Ram Dış Ticaret A.Ş.(1)	3.391.217	206.405
Otokar Europe SAS (3)	434.020	-
Other (1)	2.415	71
Total	3.827.652	206.476

Exchange loss from trade receivables and payables	March 31, 2014	March 31, 2013
Ram Dış Ticaret A.Ş.(1)	156.249	74.054
Other (1)	13.821	421
Total	170.070	74.475

(1) Related parties of the parent Company

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

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21. Related party disclosures (continued)

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

Interest income	March 31, 2014	March 31,2013
Yapı ve Kredi Bankası A.Ş. (1)	216.917	6.055
Total	216.917	6.055

Interest expense	March 31, 2014	March 31,2013
Yapı ve Kredi Bankası A.Ş. (1)	236.959	227.453
Total	236.959	227.453

Foreign exchange gains	March 31, 2014	March 31,2013
Yapı ve Kredi Bankası A.Ş. (1)	1.718.189	235.781
Total	1.718.189	235.781

Foreign exchange loss	March 31, 2014	March 31,2013
Yapı ve Kredi Bankası A.Ş. (1)	2.669.779	115.232
Total	2.669.779	115.232

(1) Related parties of the parent company

Benefits provided to executives

Salaries and similar benefits provided to the executive management by the Company for the period ended March 31, 2014 amounted to TL 907.286 (March 31, 2013 - TL 922.545). Executives are composed of board of directors members, general manager and assistants of general manager.

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22. Nature and level of risks arising from financial instruments

Foreign currency risk and related sensitivity analysis

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

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

Table of foreign currency position					
March 31, 2014					
	TL equivalent (functional currency)	USD	EUR		
1. Trade receivables	145.235.609	4.683.852	44.911.376	(21.622)	
2a. Monetary financial assets (including cash, bank accounts)	87.609.474	33.628.993	4.640.875	3.485	
2b. Non-monetary financial assets	-	-	-	-	
3. Other	33.858	4.305	8.124	-	
4. Current assets (1+2+3)	232.878.941	38.317.150	49.560.375	(18.137)	
5. Trade receivables	172.485.081	-	57.357.369	-	
6a. Monetary financial assets	99.209.157	45.305.122	-	-	
6b. Non-monetary financial assets	-	-	-	-	
7. Other	52.145	-	17.340	-	
8. Non-current assets (5+6+7)	271.746.383	45.305.122	57.374.709	-	
9. Total assets(4+8)	504.625.324	83.622.272	106.935.084	(18.137)	
10. Trade payables	(29.947.354)	(5.650.655)	(5.664.849)	(148.094)	
11. Financial liabilities	(45.707.713)	-	(15.199.426)	-	
12a. Monetary other liabilities	(382.718.945)	(155.834.377)	(13.791.177)	-	
12b. Non-monetary other liabilities	3.077.802	-	1.023.478	-	
13. Current liabilities (10+11+12)	(455.296.210)	(161.485.032)	(33.631.974)	(148.094)	
14. Trade payables	-	-	-	-	
15. Financial liabilities	-	-	-	-	
16a. Monetary other liabilities	-	-	-	-	
16b. Non-monetary other liabilities	(48.874.707)	-	(16.252.563)	-	
17. Non-current liabilities (14+15+16)	(48.874.707)	-	(16.252.563)	-	
18. Total liabilities (13+17)	(504.170.917)	(161.485.032)	(49.884.537)	(148.094)	
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	525.846	82.636.700	(60.000.000)	-	
19a. Hedged total assets amount	180.957.846	82.636.700	-	-	
19b. Hedged total liabilities amount	(180.432.000)	-	(60.000.000)	-	
20. Net foreign currency asset/(liability) position (9+18+19)	980.253	4.773.940	(2.949.453)	(166.231)	
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	46.165.309	(77.867.065)	72.254.168	(166.231)	
22. Total fair value of financial instruments used for foreign currency hedging	525.846	82.636.700	(60.000.000)	-	
23. Export (March 31, 2014)	7.841.397	145.786	2.620.391	9.512	
24. Import (March 31, 2014)	107.299.476	23.833.479	17.534.563	346.311	

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

Table of foreign currency position				
December 31, 2013				
	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	242.862.263	15.865.101	70.938.481	196.654
2a. Monetary financial assets (including cash, bank accounts)	76.038.246	31.703.749	2.844.479	5.731
2b. Non-monetary financial assets	-	-	-	-
3. Other	-	-	-	-
4. Current assets (1+2+3)	318.900.509	47.568.850	73.782.960	202.385
5. Trade receivables	192.938.324	-	65.703.499	-
6a. Monetary financial assets	93.597.289	43.853.858	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	286.535.613	43.853.858	65.703.499	-
9. Total assets(4+8)	605.436.122	91.422.708	139.486.459	202.385
10. Trade payables	(27.457.608)	(8.662.260)	(2.582.391)	(394.873)
11. Financial liabilities	(106.228.231)	-	(36.175.117)	-
12a. Monetary other liabilities	(341.994.936)	(159.450.691)	(571.880)	-
12b. Non-monetary other liabilities	(36.517.338)	-	(12.435.668)	-
13. Current liabilities (10+11+12)	(512.198.113)	(168.112.951)	(51.765.056)	(394.873)
14. Trade payables	-	-	-	-
15. Financial liabilities	(44.408.262)	-	(15.122.854)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(48.874.707)	-	(16.643.864)	-
17. Non-current liabilities (14+15+16)	(93.282.969)	-	(31.766.718)	-
18. Total liabilities (13+17)	(605.481.082)	(168.112.951)	(83.531.774)	(394.873)
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(1.231.950)	79.222.719	(58.000.000)	-
19a. Hedged total assets amount	169.085.050	79.222.719	-	-
19b. Hedged total liabilities amount	(170.317.000)	-	(58.000.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	(1.276.910)	2.532.476	(2.045.315)	(192.488)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	85.347.085	(76.690.243)	85.034.217	(192.488)
22. Total fair value of financial instruments used for foreign currency hedging	(1.231.950)	79.222.719	(58.000.000)	-
23. Export (March 31, 2013)	62.136.020	27.196.740	5.589.791	371.124
24. Import (March 31, 2013)	111.260.134	24.163.795	27.678.468	1.080.472

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

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

Exchange rate sensitivity analysis table			
March 31, 2014			
	Profit before tax	Profit before tax	
	Appreciation of foreign currency	Depreciation of foreign currency	
<i>In case 10% appreciation of USD against TL:</i>			
1-	USD net asset/liability	1.045.398	(1.045.398)
2-	Amount hedged for USD risk (-)	-	-
3-	USD net effect (1+2)	1.045.398	(1.045.398)
<i>In case 10% appreciation of EUR against TL:</i>			
4-	EUR net asset/liability	(886.959)	886.959
5-	Amount hedged for EUR risk (-)	-	-
6-	EUR net effect (4+5)	(886.959)	886.959
<i>In case 10% appreciation of GBP against TL:</i>			
7-	GBP net asset/liability	(60.413)	60.413
8-	Amount hedged for GBP risk (-)	-	-
9-	GBP net effect (7+8)	(60.413)	60.413
Total (3+6+9)		98.026	(98.026)

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

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23. Financial instruments

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

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

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

Assets	Level 1	Level 2	Level 3	Total
<u>March 31, 2014</u>				
Derivative financial instruments	-	525.846	-	525.846
Total	-	525.846	-	525.846
Liabilities	Level 1	Level 2	Level 3	Total
<u>December 31, 2013</u>				
Derivative financial instruments	-	1.231.950	-	1.231.950
Total	-	1.231.950	-	1.231.950

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

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

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

24. Subsequent events

The amount of the dividend payable included in Due to shareholders in Note 13 (100.000.000 TL) is paid on April 4, 2014.

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

None.