OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(ORIGINALLY ISSUED IN TURKISH)

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

INDEPENDENT AUDITOR'S REPORT

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

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2. Basis for Opinion

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

3. Key Audit Matters

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

Key Audit Matters	***How audit matters are handled***

Warranty Expense Provision
 	
As explained in Note 15, the Group has warranty provision amounting to TRY53 million as of 31 December 2017.
 	
The Group calculates warranty provisions for possible future claims, maintenance and repair expenses in the following years for products sold in the current year. Warranty provisions are calculated based on the remaining warranty period per vehicle and the warranty expense per vehicle estimated using the previous years' data.
 	
We focused on this matter during our audit for the reasons below:
 	
a) the amount of the warranty provision balance is material in the consolidated financial statements
b) the warranty provision is calculated per vehicle, depending on certain assumptions such as the probable warranty claims per vehicle and foreign exchange rates. Changes in such assumptions may affect the consolidated financial statements.
	We performed the following audit procedures to test the reasonableness of the warranty provision:
	
	- We tested the controls related to reviewing and approving the Group's assumptions in establishing the accounting estimates used and did not identify any significant exceptions.
	
	- We tested the remaining warranty period per vehicle as follows:
	
	  - Group management provided us with the warranty expense provision calculation. We checked the number of vehicles sold subject to the warranty calculation and tested the invoices of the vehicles sold in the current period by using the sampling method.
	
	  - We tested the mathematical accuracy of the remaining warranty period calculated for each vehicle sold by recalculation. We did not identify any significant exceptions.

3. **Key Audit Matters (Continued)**

Key Audit Matters	*How audit matters are handled*

	- We tested the warranty provision per vehicle estimated using the current and previous years' actual warranty expenses as stated below:
	
	  - We compared the consistency of the actual warranty expenses with the Group management's past estimations and assumptions and we did not find any material differences.
	
	  - The Group calculates the current year's warranty expense provision per vehicle in hard currency based on the actual warranty expenses realized in the current and previous periods taking into consideration the changes in the foreign exchange rate. We assessed the reasonableness of the warranty expense provision taking into account the actual warranty expenses and fluctuations in the foreign exchange rate and noted that this amount is not significantly different from the warranty expense provision calculated by the Group.
	
	  - We tested the Group's actual warranty provision expenses for the current period using by sampling method and did not identify any significant exceptions.

4. Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

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

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 2 February 2018.

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

Beste Gücümen, SMMM
Partner

Istanbul, 2 February 2018

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY -31 DECEMBER 2017

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CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 31 December 2017	(Audited) 31 December 2016
Assets			
Current assets			
Cash and cash equivalents	4	228,958	38,598
Trade receivables	8	445,329	388,658
Due from related parties	*27*	*29,656*	*29,437*
Due from other parties	*8*	*415,673*	*359,221*
Other receivables	9	68	20
Due from customers on contract works	11	312,030	245,830
Inventories	10	413,056	493,870
Derivative financial instruments	7	1,325	52
Prepaid expenses	17	190,153	176,766
Other current assets	17	40,632	106,138
Total current assets		**1,631,551**	**1,449,932**
Non-current assets			
Trade receivables	8	10,235	9,174
Other receivables	9	281	234
Financial investments	5	41	41
Property, plant and equipment	12	101,009	105,102
Intangibles	13	219,864	181,932
Deferred income tax asset	25	46,606	37,853
Total non-current assets		**378,036**	**334,336**
Total assets		**2,009,587**	**1,784,268**

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

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 31 December 2017	(Audited) 31 December 2016
Liabilities			
Current liabilities			
Short-term borrowings	6	429,248	3
Short-term portion of long-term borrowings	6	84,410	4,669
Trade payables	8	62,117	401,145
Due to related parties	*27*	*14,094*	*11,017*
Due to other parties	*8*	*48,023*	*390,128*
Employee benefit obligations	17	24,294	21,440
Other payables, third parties	9	42,549	37,958
Deferred income	17	21,084	200,624
Government grants	14	1,940	2,156
Short-term provisions	15	403,935	387,144
Provisions for employee benefits		*9,286*	*8,491*
Other provisions		*394,649*	*378,653*
Other current liabilities	17	2,742	11,200
Total current liabilities		**1,072,319**	**1,066,339**
Non-current liabilities			
Long-term borrowings	6	190,000	425,447
Government grants	14	1,441	3,382
Long-term provisions		31,693	38,388
Provisions for employee benefits	*16*	*31,693*	*28,088*
Other provisions	*15*	-	*10,300*
Deferred income	17	430,580	7,754
Total non-current liabilities		**653,714**	**474,971**
Total liabilities		**1,726,033**	**1,541,310**
Equity			
Paid-in share capital	18	24,000	24,000
Inflation adjustment on share capital	18	52,743	52,743
Restricted reserves	18	59,895	54,015
Accumulated other comprehensive income and expense that will not be reclassfied to statement of profit or loss	18	(4,880)	(4,986)
Defined benefit plans remeasurement losses	*18*	*(4,880)*	*(4,986)*
Accumulated other comprehensive income and expense that may be reclassfied to statement of profit or loss		2,396	1,329
Currency translation differences		*2,396*	*1,329*
Retained earnings	18	49,977	46,132
Net profit for the period	18	99,423	69,725
Total equity		**283,554**	**242,958**
Total liabilitis and equity		**2,009,587**	**1,784,268**

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 1 January – 31 December 2017	(Audited) 1 January – 31 December 2016
Net Sales	19	1,785,272	1,634,515
Cost of sales (-)	19	(1,313,646)	(1,224,670)
GROSS PROFIT		**471,626**	**409,845**
Marketing expenses (-)	20	(234,662)	(189,513)
General administrative expenses (-)	20	(69,524)	(63,132)
Research and development expenses (-)	20	(43,644)	(36,176)
Other operating income	22	448,664	422,909
Other operating expenses (-)	22	(346,746)	(379,290)
OPERATING PROFIT		**225,714**	**164,643**
Income from investing activities		1,250	87
OPERATING INCOME BEFORE FINANCIAL EXPENSES		**226,964**	**164,730**
Financial income	23	14,548	15,517
Financial expense (-)	24	(150,806)	(112,167)
PROFIT BEFORE TAX		**90,706**	**68,080**
Tax income/(expense) from continued operations			
Current tax income/(expense)	25	(66)	1,387
Deferred tax income/(expense)	25	8,783	258
PROFIT FOR THE PERIOD		**99,423**	**69,725**
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		136	(1,409)
Deferred tax income/(expense)		(30)	282
Items that may be reclassified to statement of profit or loss			
Currency translation differences		1,067	1,392
Other comprehensive income		**1,173**	**265**
TOTAL COMPREHENSIVE INCOME		**100,596**	**69,990**
Earnings per share (Kr)	**26**	**0,414**	**0,291**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

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

					Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss			
		Paid in share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity
Previous period	**Opening balances**	**24,000**	**52,743**	**46,935**	**(3,859)**	**(63)**	**43,296**	**81,916**	**244,968**
	Transfers		-	7,080	-	-	74,836	(81,916)	-
	Dividends paid		-	-	-	-	(72,000)	-	(72,000)
	Total comprehensive income		-	-	(1,127)	1,392	-	69,725	69,990
	Closing balances	**24,000**	**52,743**	**54,015**	**(4,986)**	**1,329**	**46,132**	**69,725**	**242,958**
Current period	**Opening balances**	**24,000**	**52,743**	**54,015**	**(4,986)**	**1,329**	**46,132**	**69,725**	**242,958**
	Transfers		-	5,880	-	-	63,845	(69,725)	-
	Dividends paid		-	-	-	-	(60,000)	-	(60,000)
	Total comprehensive income		-	-	106	1,067	-	99,423	100,596
	Closing balances	**24,000**	**52,743**	**59,895**	**(4,880)**	**2,396**	**49,977**	**99,423**	**283,554**

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 1 January – 31 December 2017	(Audited) 1 January – 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES		**204,043**	**409,297**
Net profit for the period		99,423	69,725
Adjustments to reconcile income before taxes to net cash flows from operating activities:		**270,516**	**194,929**
Depreciation and amortization	12, 13	62,108	49,193
Adjustments in relation to impairment:		**5,078**	**3,397**
- Provision for doubtful receivables	8	5,084	3,486
- Provision for inventories	10, 21	(6)	(89)
Adjustments in relation to provision:		**64,404**	**41,232**
- Provision for employee benefits	16, 21	8,942	7,465
- Warranty provision expenses	15, 21	55,462	33,767
Adjustments in relation to interest income and expenses:		**94,732**	**77,231**
- Interest income on time deposits	23, 27	(1,050)	(527)
- Interest expense on borrowings	24, 27	95,782	77,758
Adjustments in relation to unrealised foreign exchange gains and losses		**38,861**	**19,807**
Adjustments in relation to fair value gains and losses		**6,583**	**4,156**
- Fair value losses/(gains) on financial derivative instruments, net		6,583	4,156
Adjustments in relation to gains or loses on sales of property, plant and equipment		**(1,250)**	**(87)**
- Gain on sale of property, plant and equipments		(1,250)	(87)
Changes in net working capital		**(108,993)**	**174,410**
Change in trade receivables		**(62,911)**	**33,101**
Change in due from customers on contract works		**(66,200)**	**(57,552)**
Change in inventories		**80,820**	**(56,909)**
Change in trade payables		**(339,028)**	**232,546**
Other changes		**278,326**	**23,225**
- Changes in other operating assets		52,119	(94,939)
- Changes in other operating liabilities		226,207	118,164
Cash flows from operations		**260,946**	**439,065**
Payments in relation to employee benefits	16	**(5,201)**	**(3,107)**
Payments in relation to other provisions	15	(43,782)	(28,213)
Deductions/(payments) in relation to income tax		(66)	1,387
Other cash collections/(payments)		(7,854)	165
CASH FLOWS FROM INVESTING ACTIVITIES		**(94,697)**	**(76,630)**
Cash outflows from purchases due to obtaining control of subsidiaries		**-**	**(41)**
Proceeds from sale of property, plant and equipment and intangible assets		**4,532**	**1,155**
- Proceeds from sale of property, plant and equipment		4,532	1,155
Cash outflows due to purchase of property, plant and equipment and intangible assets		**(99,229)**	**(77,744)**
- Purchase of property, plant and equipment	12	(13,273)	(14,335)
- Purchase of intangible assets	13	(85,956)	(63,409)
CASH FLOWS FROM FINANCING ACTIVITIES		**79,947**	**(354,197)**
Cash inflow from to borrowings		**1,119,456**	**854,569**
- Proceeds from bank borrowings		1,119,456	854,569
Cash outflow due to repayment of borrowings		**(893,393)**	**(1,065,453)**
- Repayments of borrowings		(893,393)	(1,065,453)
Dividends paid		(60,000)	(72,000)
Interest paid		(87,166)	(71,840)
Interest received		1,050	527
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		**189,293**	**(21,530)**
Currency translation difference on cash and cash equivalents		**1,067**	**1,392**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**190,360**	**(20,138)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	**38,598**	**58,736**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**228,958**	**38,598**

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

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

Otokar Otomotiv ve Savunma Sanayi A.Ş. ("Otokar" or the "Company"), was established in 1963 and is registered in Istanbul, Turkey and operating under the Turkish Commercial Code. The Company operates in the automotive industry and off road vehicles, armored vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production.

The registered adresses of the Company are as follows:

Headquarters:

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

Plant:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

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

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

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

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

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

	31 December 2017		31 December 2016	
	Period end	Average	Period end	Average
Total personnel number	2,147	2,205	2,297	2,409

The consolidated financial statements for the year ended 31 December 2017 were authorized for issue and signed by the Board of Directors of Otokar on 2 February 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 December 2017, 27.45% of the shares are quated on the BIST.

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

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

As of 31 December 2017, the principal shareholders and their respective shareholding percentages are as follows:

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

Otokar Otomotiv ve Savunma Sanayi 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 CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation of consolidated financial statements

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

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

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

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

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

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 December 2017 and 31 December 2016 have been restated by applying the relevant conversion factors through carrying additions after 31 December 2004 at their nominal values.

2.2 Accounting errors and changes in accounting estimates

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

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; ifchanges in estimates are related to future periods, they are recognized both in the period where thechange is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these consolidated financial statements for the year ended 31 December 2017 are consistent with those used in the preparation of financial statements for the year ended 31 December 2016.

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.

a. Standards, amendments and interpretations applicable as at 31 December 2017

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 disclosured,

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

2.3 Changes in accounting policies (Continued)

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

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

Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2017. These amendments impact 2 standards:

- TFRS 12,'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

b. Standards, amendments and interpretations effective after 1 January 2018

If a new TAS / TFRS issued but not yet effective and not early adopted:

a) the circumstance and
b) the likely or reasonable estimaed effect of the change in the financial statements for the adoption period should be disclosed in the financial statements.

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

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

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

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

2.3 Changes in accounting policies (Continued)

b. Standards, amendments and interpretations effective after 1 January 2018

- Amendments toTFRS 4, 'Insurance contracts'; regarding the implementation of TFRS 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 TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard IAS 39.

- Amendment to TAS 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.

- Amendments to TFRS 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 TFRS 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:

    - TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
    - TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- TFRIC 22, 'Foreign currency transactions and advance consideration'; effective from annual periods beginning on or after 1 January 2018. This TFRIC 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.

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

2.3. Changes in accounting policies (Continued)

b. Standards, amendments and interpretations effective after 1 January 2018

- Amendment to TFRS 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 TAS 39.

- Amendment to TAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

- TFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in TAS 17 and is a far reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- TFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This TFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. TFRIC 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. TFRIC 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.

- TFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

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

2.3. Changes in accounting policies (Continued)

c. Standards, amendments and interpretations effective after 1 January 2018

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements as of 31 December 2017 are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to TFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). Effective date for TFRS 15 is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

TFRS 9 Financial Instruments

In January 2016, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED 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 deductable temporary differences. For the year ended 31 December 2017, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.

c) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.

d) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property,plant and equipment and intangible assets.

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

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

2.5 Summary of significant accounting policies

Group accounting

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

Subsidiaries

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

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

Disposal of a subsidiary

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

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 31 December 2017 and 2016:

	2017		**2016**	
Subsidiaries	**Direct and indirect ownership (%)**	**Proportion of effective interest (%)**	**Direct and indirect ownership (%)**	**Proportion of effective interest (%)**
Otokar Europe SAS	100.00	100.00	100.00	100.00
Otokar Land Systems LLC (*)	100.00	100.00	-	-

(*) Since financial activities of "Otokar Land System LLC" does not materially affect the financial statements, the investment was presented under as financial investments.

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

2.5 Summary of significant accounting policies (Continued)

Revenue recognition

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

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

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

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

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

Construction contract activities

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

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

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

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

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

2.5 Summary of significant accounting policies (Continued)

Related parties

a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity,
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

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

Inventories

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

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

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

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

Property, plant and equipment

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

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

2.5 Summary of significant accounting policies (Continued)

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

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

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

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

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

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

Intangible assets

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

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

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

2.5 Summary of significant accounting policies (Continued)

Research and development expenses

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

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

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

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

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

Investment, research and development incentives

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

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

Income taxes

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

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

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

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

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

2.5 Summary of significant accounting policies (Continued)

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

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

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

Employee benefits

a) Defined benefit plans:

Employment termination benefits

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

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

Foreign currency transactions

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

Provisions

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

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

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

2.5 Summary of significant accounting policies (Continued)

Contingent liabilities and assets

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

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

Share capital and dividend

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

Operational leases

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

Warranty expenses

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

Financial instruments

Financial assets

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

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

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

2.5 Summary of significant accounting policies (Continued)

Cash and cash equivalents

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

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

Trade receivables

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

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

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

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

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

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

Trade payables

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

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

2.5 Summary of significant accounting policies (Continued)

Borrowings

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

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

Derivative financial instruments

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

Impairments in financial assets

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

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

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

Recognition and derecognition of financial assets and liabilities

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

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

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

2.5 Summary of significant accounting policies (Continued)

Foreign currency transactions

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

Earnings per share

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

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

Subsequent events

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

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

Impairment of non-financial assets

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

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

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

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

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

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

2.5 Summary of significant accounting policies (Continued)

Borrowing costs

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

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

Offsetting

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

NOTE 3 - SEGMENT REPORTING

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

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Banks		
- time deposits	214,933	26,059
- demand deposits	12,434	11,536
Cheques and notes receivable	1,513	918
Other	78	85
	228,958	**38,598**

As of 31 December 2017, TL214,849 thousand of the total amount of time deposits amounting to TL214,933 thousand is denominated in foreign currency and the annual effective interest rate is 1.00% and has a maturity of 4 days. The annual effective interest rate of the remaining TL84 thousand is 8.25% and has a maturity of 4 days.

As of 31 December 2016, TL17,479 thousand of the total amount of time deposits amounting to TL26,059 thousand is denominated in foreign currency and the annual effective interest rate is 0.10% and has a maturity of 3 days. The annual effective interest rate of the remaining TL8,580 thousand is 8.25% and has a maturity of 3 days.

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

As of 31 December 2017, the Group has restricted bank deposit amounting to TL0,2 thousand (31 December 2016: TL0,8 thousand).

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

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Land Systems LLC" with paid in capital of AED 50,000 (approximately TL41 thousand), established in United Arab Emirates for the purpose of organizing export activities and increasing export sales. Since Otokar Land Systems LLC's operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

NOTE 6 - BORROWINGS

31 December 2017	Maturities	Annual effective interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (**)	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 TL		12.60-14.44	84,410
			84,410

(*) Bearing fixed interest rate.

(**) Interest free loan for the Social Security Instution payments.

31 December 2017	Maturities	Annual effective interest rate (%))	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	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.

31 December 2016	Maturities	Annual effective interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	2 January 2017	-	3
			3
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TL		12.60-14.65	4,178
Denominated in EUR		2.90	491
			4,669

(***) Interest free loan for the Social Security Instution payments.

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

NOTE 6 - BORROWINGS (Continued)

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

(*) Bearing fixed interest rate.
(**) Weighted average maturity days of long-term borrowings are 632 days.

As of 31 December 2017, the Group has not provided any guarantees for the borrowings (31 December 2016: None).

The movement of the borrowings for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	430,119	615,278
Borrowing received during the period	1,119,456	854,569
Principal payments (-)	(893,393)	(1,065,453)
Change in interest accruals	8,615	5,918
Change in exchange rates	38,861	19,807
31 December	**703,658**	**430,119**

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value assets
31 December 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**

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	Contract amount	Current period contract maturity	Fair value assets
31 December 2016:			
Forward transactions	25,397	12 January 2017	52
Short-term derivative financial instruments	25,397		52
Total derivative financial instruments	**25,397**		**52**

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2017	31 December 2016
Trade receivables, net	268,152	258,579
Notes receivables, net	181,506	129,552
	449,658	**388,131**
Less: provision for doubtful receivables	(33,985)	(28,910)
Short-term trade receivables	**415,673**	**359,221**
Trade receivables from related parties (Note 27)	29,656	29,437
Short-term trade receivables	**445,329**	**388,658**
Long-term trade receivables, net	-	-
Long-term notes receivable, net	10,235	9,174
Long-term trade receivables	**10,235**	**9,174**

As of 31 December 2017, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2016 60-90 days).

As of 31 December 2017 and 2016, the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 31 December 2017, the total trade receivable from dealers amounting to TL157,074 thousand (31 December 2016: TL79,884 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL193,792 thousand (31 December 2016: TL134,631 thousand). The Group manages the credit risk of remaining balance in the manner described in the Credit Risk section of Note 28 to the consolidated financial statements.

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

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 years past due	-
Total	**236**
Amount secured with guarantees	**236**

31 December 2016	**Trade receivables**
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	219
Over 5 years past due	-
Total	**219**
Amount secured with guarantees	**219**

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 years ended 31 December 2017 and 2016 are as follows:

	2017	**2016**
As of 1 January	28,910	25,973
Collections	(9)	(549)
Currency translation differences	232	153
Exchange differences	4,805	3,237
Increase during the year	47	96
31 December	**33,985**	**28,910**

Trade payables

	31 December 2017	**31 December 2016**
Trade payables, net	47,667	389,799
Notes payables, net	356	329
Short-term other trade payables	**48,023**	**390,128**
Trade payables to related parties (Note 27)	14,094	11,017
Short-term trade payables	**62,117**	**401,145**

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2017, average payment term for trade payables is 45-60 days (31 December 2016: 45-60 days).

As of 31 December 2017 and 2016, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other short-term receivables

	31 December 2017	31 December 2016
Deposits and guarantees given	67	8
Due from personnel	1	12
Total	**68**	**20**

Other long-term receivables

	31 December 2017	31 December 2016
Deposits and guarantees given	281	234
Total	**281**	**234**

Other short-term payables

	31 December 2017	31 December 2016
Other miscellaneous payables	42,549	37,958
Total	**42,549**	**37,958**

As explained in Note 15, TL36,169 thousand (31 December 2016: TL36,169 thousand of other miscellaneous payables was collected but not credited to statement of profit or loss, since the lawsuit in relation to deductable corporate tax from Reseacrh and Development expenses has not been finalised.

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

NOTE 10 - INVENTORIES

	31 December 2017	**31 December 2016**
Raw material	163,088	182,574
Semi-finished goods	14,140	73,212
Finished goods	83,286	116,973
Merchandise goods	75,478	67,684
Goods in transit	77,764	54,133
Impairment for inventories (*)	(700)	(706)
Total	**413,056**	**493,870**

(*) TL155 thousand of impairment is related to finished goods (31 December 2016: TL100 thousand) and TL545 thousand is related to merchandises (31 December 2016: TL606 thousand). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2017 and 2016 are as follows:

	2017	**2016**
1 January	(706)	(795)
Reversal of provision	6	89
31 December	**(700)**	**(706)**

NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivables from uncompleted contracts are TL312,030 thousand as of 31 December 2017 (31 December 2016: TL245,830 thousand) after offsetting with short-term advances received.

As of 31 December 2017, the short-term advances received by the Group and deferred revenues related with ongoing projects is none in the consolidated financial statements (31 December 2016: TL32,407 thousand).

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the years ended 31 December 2017 and 2016 are as follows:

	1 January 2017	Additions	Currency tranlastion differences	Disposals	Transfers	31 December 2017
Cost						
Land	37,457	-	-	-	-	37,457
Land improvements	11,970	10	-	-	375	12,355
Buildings	60,633	18	-	-	78	60,729
Machinery and equipment	106,176	4,479	128	(918)	751	110,616
Motor vehicles	9,613	1,315	-	(1,320)	-	9,608
Furniture and fixtures	33,986	4,132	42	(190)	968	38,938
Leasehold improvements	2,116	15	-	-	-	2,131
Construction in process	696	3,134	-	-	(2,376)	1,454
	262,647	**13,103**	**170**	**(2,428)**	**(204)**	**273,288**
Accumulated depreciation						
Land improvements	(7,479)	(483)	-	-	-	(7,962)
Buildings	(37,501)	(7,150)	-	-	-	(44,651)
Machinery and equipment	(86,576)	(4,813)	(64)	897	-	(90,556)
Motor vehicles	(5,633)	(661)	-	891	-	(5,403)
Furniture and fixtures	(18,839)	(3,212)	(31)	171	-	(21,911)
Leasehold improvements	(1,517)	(279)	-	-	-	(1,796)
	(157,545)	**(16,598)**	**(95)**	**1,959**	**-**	**(172,279)**
Net book value	**105,102**					**101,009**

Movements in property, plant and equipment and related accumulated depreciation for the year ended 31 December 2016 are as follows:

	1 January 2016	Additions	Currency tranlastion differences	Disposals	Transfers	31 December 2016
Cost						
Land	37,457	-	-	-	-	37,457
Land improvements	11,953	7	-	-	10	11,970
Buildings	60,540	-	-	-	93	60,633
Machinery and equipment	99,678	5,146	85	-	1,267	106,176
Motor vehicles	8,428	2,401	-	(1,216)	-	9,613
Furniture and fixtures	28,601	4,608	25	-	752	33,986
Leasehold improvements	2,099	14	-	(186)	189	2,116
Construction in process	964	2,049	-	-	(2,317)	696
	249,720	**14,225**	**110**	**(1,402)**	**(6)**	**262,647**
Accumulated depreciation						
Land improvements	(6,826)	(653)	-	-	-	(7,479)
Buildings	(34,713)	(2,788)	-	-	-	(37,501)
Machinery and equipment	(81,637)	(4,906)	(33)	-	-	(86,576)
Motor vehicles	(5,148)	(706)	-	221	-	(5,633)
Furniture and fixtures	(15,938)	(2,887)	(14)	-	-	(18,839)
Leasehold improvements	(1,325)	(304)	-	112	-	(1,517)
	(145,587)	**(12,244)**	**(47)**	**333**	**-**	**(157,545)**
Net book value	**104,133**					**105,102**

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of depreciation and amortization expenses of property, plant and equipment and intangible assets for the years ended at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Research and development expenses	43,528	34,797
Costs related to uncompleted contracts	6,806	3,085
Cost of goods sold	5,476	5,200
Development projects in process	1,987	1,906
Depreciation on inventories	1,092	916
General administrative expenses	1,692	1,763
Selling and marketing expenses	1,432	1,479
Currency translation differences	95	47
Total	**62,108**	**49,193**

NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2017 and 2016 are as follows:

	1 January 2017	Additions	Currency tranlastion differences	Disposals	Tranfers	31 December 2017
Cost						
Other intangible assets	18,028	1,999	-	-	204	20,231
Development costs	297,383	-	-	(7,033)	55,353	345,703
Developments projects in progress	38,079	83,957	-	-	(55,353)	66,683
	353,490	**85,956**	**-**	**(7,033)**	**204**	**432,617**
Accumulated amortization						
Other intangible assets	(14,078)	(1,887)	-	-	-	(15,965)
Development costs	(157,480)	(43,528)	-	4,220	-	(196,788)
	(171,558)	**(45,415)**	**-**	**4,220**	**-**	**(212,753)**
Net book value	**181,932**					**219,864**

The Group has capitalised TL4,517 thousand (31 December 2016: TL3,324 thousand) of its finance expense in relation to qualifying assets in 2017.

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

NOTE 13 - INTANGIBLE ASSETS (Continued)

The movements in intangible assets and related amortization for the year ended 31 December 2016 are as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 December 2016
Cost:						
Other intangible assets	16,232	1,791	-	-	5	18,028
Development costs	242,620	-	-	-	54,763	297,383
Development projects in progress	31,224	61,618	-	-	(54,763)	38,079
	290,076	**63,409**	**-**	**-**	**5**	**353,490**
Accumulated amortization:						
Other intangible assets	(11,973)	(2,105)	-	-	-	(14,078)
Development costs	(122,683)	(34,797)	-	-	-	(157,480)
	(134,656)	**(36,902)**	**-**	**-**	**-**	**(171,558)**
Net book value	**155,420**					**181,932**

NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2017	31 December 2016
Short-term	1,940	2,156
Long-term	1,441	3,382
Total	**3,381**	**5,538**

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

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2017	31 December 2016
Provision for other costs	324,431	340,870
Warranty provision	53,065	31,085
Short-term provisions for employee benefits	9,286	8,491
Other	17,153	6,698
Total	**403,935**	**387,144**

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

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

Long-term provisions

	31 December 2017	31 December 2016
Warranty provision	-	10,300
Total	**-**	**10,300**

Provision for other costs

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

	2017	2016
1 January	340,870	233,120
Increase/(decrease) during the year	(34,837)	65,407
Foreign currency valuation	18,398	42,343
31 December	**324,431**	**340,870**

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. The movement of the warranty expense provision is as follows:

	2017	2016
1 January	41,385	35,831
Additional provision	55,462	33,767
Claim payments	(43,782)	(28,213)
31 December	**53,065**	**41,385**

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

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

Commitments and contingencies

As of 31 December 2017 and 2016, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2017	31 December 2016
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,853,700	1,614,606
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	**1,853,700**	**1,614,606**

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

	31 December 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	397,404	1,498,967	285,635	1,005,208
EUR	55,818	252,047	112,796	418,461
TL	102,686	102,686	189,755	189,755
GBP	-	-	274	1,182
Total		**1,853,700**		**1,614,606**

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

	31 December 2017	31 December 2016
Guarantee letters given		
Under secretariat of Ministry of Defense	1,090,079	1,092,184
Other	763,621	522,422
Total	**1,853,700**	**1,614,606**

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

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

Guarantee letters

a) Guarantees given as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Bank letters of guarantee (*)	1,853,700	1,614,606
	1,853,700	**1,614,606**

(*) Bank letters of guarantee amounting to TL938,865 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2016: TL875,733)

b) Guarantees received as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Bank letters of guarantee (**)	651,824	551,490
Guarantee notes	14,550	15,898
Mortgages received	20	20
Total	**666,394**	**567,408**

(**) Bank letters of guarantee amounting to TL340,829 are obtained from the sub-contractors for Altay Project (31 December 2016: TL317,195).

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 is still in progress at appeal phase. Total amount of cases at the appeal phase amount to TL36,169. The amount of the legal case for 2015 is TL4,557. The case was also concluded in favor of the Group but the appeal phase is still in progress.

NOTE 16 - EMPLOYEE BENEFITS

	31 December 2017	31 December 2016
Provision for employement termination benefits	31,693	28,088
Provision for unused vacation	9,286	8,491
Total	**40,979**	**36,579**

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

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TL4,732.48 in full for each year of service as of 31 December 2017 (31 December 2016: TL4,297.21 in full).

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

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

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the real rate free of expected effects of inflation. The termination indemnity ceiling is revised semi-annually and the ceiling amounting to TL 5,001.76 in full (1 January 2017: TL 4,426.16 in full), which is effective from 1 January 2018, has been taken into consideration in calculation of retirement benefit provision in the consulate.

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

	31 December 2017	31 December 2016
Net discount rate (%)	4.95	4.50
Turnover rate to estimate the probability of retirement (%)	97.28	97.50

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

	2017	2016
1 January	28,088	22,321
Interest expense	2,542	2,020
Charge for the period	6,400	5,445
Remeasurement differences	(136)	1,409
Payments	(5,201)	(3,107)
31 December	**31,693**	**28,088**

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2017	2016
1 January	8,491	6,652
Charge for the period, net (Note 21)	795	1,839
31 December	**9,286**	**8,491**

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

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

a) Prepaid expenses:

	31 December 2017	31 December 2016
Advances given	185,594	171,436
Prepaid expenses	4,559	5,330
	190,153	**176,766**

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

b) Other current assets:

	31 December 2017	31 December 2016
Value added tax receivables	39,832	105,448
Other	800	690
	40,632	**106,138**

c) Deferred revenues:

Deferred revenues - short term	31 December 2017	31 December 2016
Advances received	9,674	175,322
Deferred maintenance revenues	9,437	25,302
Other deferred income	1,973	-
	21,084	**200,624**

Deferred revenues - long term	31 December 2017	31 December 2016
Advance receipts (*)	404,513	-
Other deferred income (**)	26,067	-
Deferred maintenance revenues	-	7,754
	430,580	**7,754**

(*) 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.

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

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

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

d) Employee benefits obligation:

	31 December 2017	31 December 2016
Payables to employees	11,764	10,365
Social security payables	6,197	6,324
Taxes and funds payable	6,333	4,751
	24,294	**21,440**

e) Other current liabilities:

	31 December 2017	31 December 2016
Taxes and funds payable	1,709	1,403
Deferred speacial consumption tax	444	9,273
Other	589	524
	2,742	**11,200**

NOTE 18 - EQUITY

Share capital

As of 31 December 2017 and 2016, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2017		31 December 2016	
	TL	(%)	TL	(%)
Koç Holding A.Ş.	10,723	44.68	10,723	44.68
Ünver Holding A.Ş.	5,955	24.81	5,955	24.81
Other	7,322	30.51	7,322	30.51
Total	**24,000**		**24,000**	**100.00**
Inflation adjustment on equity items	52,743		52,743	
Total	**76,743**		**76,743**	

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

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

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

NOTE 18 - EQUITY (Continued)

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

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

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

As of 31 December 2017, in the financial statements of the Group prepared in accordance with financial reporting standards published by Capital Markets Board, net income of the year and prior year profits including other reserves to be distributed as dividend is TL90,640 (31 December 2016: TL69,725) and TL49,977 (31 December 2016: TL46,132), respectively. Current year net income of the Company in statutory books is TL37,623 (31 December 2016: TL62.303), other reserves to be distributed as dividend (without being subject to additional taxation) is TL87,627 (31 December 2016 – TL90,496). In addition, in statutory books there is TL16,225 of inflation adjustment and TL11,040 of other capital reserves that are subject to taxation if they are distributed.

After deduction of first legal reserves, current year net profit in statutory books is TL37,623 (31 December 2016: TL62,303). As of report date, there is no decision of dividend distribution related to 2017.

In accordance with the Communiqué, as of 31 December 2017 and 2016, the details of equity, based on which the dividend will be distributed is as follows:

	31 December 2017	**31 December 2016**
Paid-in share capital	24,000	24,000
Inflation adjustment on equity items	52,743	52,743
Restricted reserves	59,895	54,015
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(4,880)	(4,986)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	2,396	1,329
Retained earnings		
- Extraordinary reserves	39,027	35,182
- Inflation adjustments on legal reserves	10,950	10,950
Net income for the year	99,423	69,725
Total	**283,554**	**242,958**

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

NOTE 18 - EQUITY (Continued)

As of December 31, 2017 and 2016, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

31 December 2017

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	59,895	10,950	70,845
Total	**83,895**	**63,693**	**147,588**

31 December 2016

	Historical value	Inflation adjustments On equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	54,015	10,950	64,965
Total	**78,015**	**63,693**	**141,708**

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

	31 December 2017	31 December 2016
Legal reserves	59,895	54,015
Extraordinary reserves	87,093	90,496
Total	**146,988**	**144,511**
Dividends distributed during the year based on previous year's net income per statutory financial statements	60,000	72,000
Dividend paid per share (piaster)	0,250	0,300

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

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

NOTE 19 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 December 2017	1 January - 31 December 2016
Domestic sales	1,241,020	1,197,376
Export sales	552,285	446,885
Gross Sales	**1,793,305**	**1,644,261**
Less: sales discounts and returns	(8,033)	(9,746)
Net sales	**1,785,272**	**1,634,515**

Sales of the Group for the years ended 31 December 2017 and 2016 in terms of the products are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Commercial vehicle	701,723	639,776
Armored vehicle	799,089	676,159
Accrued earnings related to construction contracts	79,877	158,226
Other sales (*)	204,583	160,354
	1,785,272	**1,634,515**

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

Cost of sales

	1 January - 31 December 2017	1 January - 31 December 2016
Cost of finished goods sold	(1,208,644)	(1,155,427)
Cost of merchandise goods sold	(105,002)	(69,243)
	(1,313,646)	**(1,224,670)**

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

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

	1 January - 31 December 2017	1 January - 31 December 2016
Sales and marketing expenses	(234,662)	(189,513)
General administrative expenses	(69,524)	(63,132)
Research and development expenses	(43,644)	(36,176)
	(347,830)	**(288,821)**

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2017	1 January - 31 December 2016
Cost of raw material and consumption goods	931,349	1,026,749
Change in finished and semi-finished goods	92,758	(26,270)
Cost of merchandises sold	119,446	69,242
Depreciation and amortization expense	60,026	47,240
Personnel expenses	204,816	188,584
Operational expenses	31,713	29,940
Administrative expenses	50,227	50,857
Warranty provision expense (Note 15)	55,462	33,767
Transportation, distribution and storage expenses	20,268	18,359
Advertising, promotion and promotion costs	19,435	15,561
Other expenses	75,976	59,461
Total	**1,661,476**	**1,513,490**

The breakdown of personnel expenses for the years 2017 and 2016 is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Based on the account it's recorded:		
Cost of sales and inventories on hand	94,162	93,906
Costs related to uncompleted contracts	29,829	25,669
Capitalized development expenditures	35,817	27,761
General administrative expenses	28,121	24,631
Sales and marketing expenses	52,589	42,999
Research and development expenses	115	1,379
	240,633	**216,345**

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

NOTE 21 - EXPENSES BY NATURE (Continued)

	1 January - 31 December 2017	1 January - 31 December 2016
By nature:		
Wages and salaries	186,625	165,115
Social security premiums	24,427	22,862
Other social benefits	17,807	18,027
Provision for employment termination benefits	9,082	7,578
Provision for vacation pay liability	795	1,839
Other	1,897	924
	240,633	**216,345**

NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

Other operating income	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains on operating activities	375,918	390,894
Gain on forward transactions	37,756	7,035
Revenue from charge of due date receivables	20,780	9,778
Incentives income	2,156	2,164
Other	12,054	13,038
Total	**448,664**	**422,909**

Other operating expenses	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange loss on operating activities	(297,324)	(364,767)
Loss on forward transactions	(44,338)	(11,190)
Provision for doubtful receivables(Note 8)	(4,852)	(3,333)
Other	(232)	-
Total	**(346,746)**	**(379,290)**

NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2017	1 January - 31 December 2016
Interest income from time deposits	1,050	527
Foreign exchange gains on deposits	13,498	6,547
Foreign exchange gains on bank borrowings	-	8,443
Total	**14,548**	**15,517**

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

NOTE 24 - FINANCIAL EXPENSES

	1 January – 31 December 2017	1 January – 31 December 2016
Interest expense on bank borrowings	(95,782)	(77,758)
Foreign exchange losses on deposits	(15,873)	(5,981)
Foreign exchange losses on bank borrowings	(38,861)	(28,250)
Other	(290)	(178)
Total	**(150,806)**	**(112,167)**

NOTE 25 - TAX ASSETS AND LIABILITIES

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

In Turkey, the corporation tax rate is 20% (2016 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of 5 years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

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

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

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2017 and 2016.

As a result of its research and development expenditures made in 2017 amounting to TL105,370 (2016: TL48,655). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2017 and 2016, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2017	**31 December 2016**
Income tax payable	1,277	572
Prepaid taxes (-)	(1,277)	(572)
Total	**-**	**-**

The breakdown of total tax expense for the years ended 31 December 2017 and 2016 are as follows:

	31 December 2017	**31 December 2016**
Current tax charge	(66)	1,387
Deferred tax income / expense reflected in profit or loss		
Charged to profit for the period	8,783	258
Charged to other comprehensive income	(30)	282
Total	**8,687**	**1,927**

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

	1 January - 31 December 2017	**1 January - 31 December 2016**
Profit before tax	**90,706**	**68,080**
Income tax charge at effective tax rate 20%	(18,141)	(13,616)
Effect of exemptions and incentives	33,934	9,731
Other differences	(7,106)	5,812
Total	**8,687**	**1,927**

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

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2017 and 2016, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets / (liability)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Incentives from reseacrh and development activities (*)	123,033	66,991	27,607	13,398
Property, plant and equipment	(7,723)	(10,263)	1,937	1,429
Intangible assets	(53,814)	(44,360)	(10,763)	(8,872)
Deferred financial expenses	(453)	(1,278)	(100)	(256)
Inventories	996	710	213	142
Warranty provision	53,065	31,085	11,260	6,217
Provision for employment termination benefits	31,693	28,088	6,339	5,618
Deferred financial income	1,044	3,291	230	658
Other provisions	23,052	13,917	4,851	2,783
Deferred maintenance income	9,437	33,055	2,076	6,611
Due from customers on contract works	9,732	50,621	2,141	10,124
Other	25,566	3	1,355	1
Deferred tax assets, net			**46,606**	**37,853**

(*) 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 December 31, 2017, the tax advantage of TL123.033 (31 December 2016: TL66.991), 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 TL133.194 for afromentioned years is still going on.

The movement of deferred tax asset for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	37,853	37,313
Deferred tax income		
Charged to profit for the period	8,783	258
Charged to other comprehensive income	(30)	282
31 December	**46,606**	**37,853**

NOTE 26 - EARNINGS PER SHARE

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

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

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

NOTE 26 - EARNINGS PER SHARE (Continued)

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

	31 December 2017	31 December 2016
Net income attributable to shareholders (TL)	99,423	69,725
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.414	0,291

NOTE 27 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 December 2017 and 2016:

Due from related parties	**31 December 2017**	**31 December 2016**
Ram Dış Ticaret A.Ş. (1) (*)	28,958	29,335
Ford Otosan A.Ş. (1), (2)	698	67
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	-	35
Total	**29,656**	**29,437**

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

Due to related parties	**31 December 2017**	**31 December 2016**
Koç Holding A.Ş. (2)	5,353	4,609
Ram Dış Ticaret A.Ş. (1)	2,996	1,245
Zer Merkezi Hizmetler A.Ş. (1)	2,974	1,965
Setur Servis Turistik A.Ş. (1)	618	337
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	596	409
Ford Otosan A.Ş. (1), (2)	450	90
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	378	436
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	213	780
Opet Petrolcülük A.Ş. (1)	150	118
Ram Sigorta Aracılık Hiz. A.Ş. (1)	133	58
Opet Fuchs Madeni Yağ A.Ş. (1)	106	614
Other (1)	127	356
Total	**14,094**	**11,017**

(1) Related parties of the parent company
(2) Shareholder

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Advances received from related parties	**31 December 2017**	**31 December 2016**
Otokar Land Systems LLC’s subsidiary (Note 17)	404.513	-
	404.513	**-**

Deferred revenue from related parties	**31 December 2017**	**31 December 2016**
Otokar Land Systems LLC (Note 17)	28.040	-
	28.040	**-**

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

Product sales and service revenue	**1 January – 31 December 2017**	**1 January – 31 December 2016**
Ram Dış Ticaret A.Ş. (1) (*)	228,849	169,278
Ford Otosan A.Ş. (1), (2)	61	155
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	50	1
Tofaş Türk Otomobil Fabrikası A.Ş.	22	-
Other (1)	1	321
Total	**228,983**	**169,755**

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

Purchase of property, plant and equipment	**1 January – 31 December 2017**	**1 January – 31 December 2016**
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	2,802	2,670
Zer Merkezi Hizmetler A.Ş. (1)	486	331
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	281	60
Other (1)	62	75
Total	**3,631**	**3,136**

Inventories purchased	**1 January – 31 December 2017**	**1 January – 31 December 2016**
Zer Merkezi Hizmetler A.Ş. (1)	27,773	20,853
Ram Dış Ticaret A.Ş. (1)	4,345	2,314
Opet Petrolcülük A.Ş. (1)	3,192	2,026
Arçelik Pazarlama A.Ş. (1)	3,022	-
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2,328	2,258
Opet Fuchs Madeni Yağ A.Ş. (1)	2,246	2,330
Ford Otosan A.Ş. (1), (2)	487	119
Other (1)	387	156
Total	**43,780**	**30,056**

(1) Related parties of the parent company
(2) Shareholder

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January – 31 December 2017	1 January – 31 December 2016
Ram Dış Ticaret A.Ş. (1)	17,164	27,266
Koç Holding A.Ş. (2) (*)	8,170	13,275
Setur Servis Turistik A.Ş. (1)	7,985	6,455
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	4,163	4,576
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	3,938	2,831
Ram Sigorta Aracılık Hizm. A.Ş. (1) (**)	3,605	2,035
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	3,059	2,990
Other (1)	1,902	932
Total	**49,986**	**60,360**

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

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

Banks deposits	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	1,821	20,761
- Deposit deposits	3	14
Total	**1,824**	**20,775**

Checks and notes in collection	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)	4,119	6,977
Total	**4,119**	**6,977**

(1) Related parties of the parent company

(2) Shareholder

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

NOT 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2017 and 2016, financial income and expense with related parties:

Foreign exchange gains	**1 January – 31 December 2017**	**1 January - 31 December 2016**
Ram Dış Ticaret A.Ş. (1)	25,321	6,586
Yapı ve Kredi Bankası A.Ş. (1)	8,650	1,976
Other(1)	82	233
Total	**34,053**	**8,795**

Foreign exchange loss	**1 January – 31 December 2017**	**1 January - 31 December 2016**
Yapı Kredi Faktoring A.Ş. (1)	12,678	5,668
Ram Dış Ticaret A.Ş. (1)	9,549	5,358
Other (1)	5,881	3,146
Total	**28,108**	**14,172**

For the years ended 31 December 2017 and 2016, financial income and expense with related parties:

Interest income	**1 January - 31 December 2017**	**1 January - 31 December 2016**
Yapı ve Kredi Bankası A.Ş. (1)	183	136
Total	**183**	**136**

Interest expense	**1 January – 31 December 2017**	**1 January – 31 December 2016**
Yapı ve Kredi Bankası A.Ş. (1)	742	4,784
Total	**742**	**4,784**

(1) Related parties of the parent company

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the year ended 31 December 2017 is amounted to TL14,762 (31 December 2016: TL12,459). Executives are composed of board of directors members, general manager and assistants of general manager.

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

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

Credit risk

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

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

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

	Receivables r			
31 December 2017	**Trade receivables**	**Other**	**Bank deposits**	**Derivative instrument**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	**455,564**	**349**	**227,367**	**-**
- Maximum risk secured by guarantee (2)	**(260,836)**	**-**	**-**	**-**
A. Net book value of financial assets neither overdue nor impaired	**454,998**	**349**	**227,367**	**-**
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	**-**	**-**	**-**	**-**
C. Net book value of assets overdue but not impaired	**236**	**-**	**-**	**-**
D. Net book value of impaired assets	**330**	**-**	**-**	**-**
- Overdue (gross book value)	**34,315**	**-**	**-**	**-**
- Impairment (-) (Note 8)	**(33,985)**	**-**	**-**	**-**
- Net value under guarantee	**349**	**-**	**-**	**-**
- Not overdue (gross book value)	**-**	**-**	**-**	**-**
- Impairment (-)	**-**	**-**	**-**	**-**
- Net value under guarantee	**-**	**-**	**-**	**-**
E. Off- balance sheet items having credit risk	**-**	**-**	**-**	**-**

	Receivables			
31 December 2016	**Trade receivables**	**Other**	**Bank deposits**	**Derivative instrument**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	**397,832**	**254**	**37,595**	**-**
- Maximum risk secured by guarantee (2)	**(189,881)**	**-**	**-**	**-**
A. Net book value of financial assets neither overdue nor impaired	**394,758**	**254**	**37,595**	**-**
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	**-**	**-**	**-**	**-**
C. Net book value of assets overdue but not impaired	**219**	**-**	**-**	**-**
D. Net book value of impaired assets	**2,855**	**-**	**-**	**-**
- Overdue (gross book value)	**31,765**	**-**	**-**	**-**
- Impairment (-) (Note 8)	**(28,910)**	**-**	**-**	**-**
- Net value under guarantee	**1,170**	**-**	**-**	**-**
- Not overdue (gross book value)	**-**	**-**	**-**	**-**
- Impairment (-)	**-**	**-**	**-**	**-**
- Net value under guarantee	**-**	**-**	**-**	**-**
E. Off- balance sheet items having credit risk	**-**	**-**	**-**	**-**

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

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

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

Liquidity risk

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

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

As of 31 December 2017 and 2016, maturities of gross trade payables and financial liabilities are as follows:

31 December 2017

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	**703,658**	**757,936**	**457,848**	**107,090**	**192,998**	**-**
Trade payables	**62,117**	**62,579**	**62,223**	**356**	**-**	**-**

Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	**42,549**	**42,549**	**42,549**	**-**	**-**	**-**
Other short-term liabilities	**2,742**	**2,742**	**2,742**	**-**	**-**	**-**

Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	**1,325**	**1,325**	**1,325**	**-**	**-**	**-**
Derivative cash inflows	**260,648**	**260,648**	**260,648**	-	-	-
Derivative cash outflows	**(259,323)**	**(259,323)**	**(259,323)**	-	-	-

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

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

31 December 2016

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	**430,119**	**517,991**	**14,967**	**38,864**	**464,160**	**-**
Trade payables	**401,145**	**402,431**	**402,102**	**329**	**-**	**-**

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

Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	**52**	**52**	**52**	**-**	**-**	**-**
Derivative cash inflows	**25,449**	**25,449**	**25,449**	-	-	-
Derivative cash outflows	**(25,397)**	**(25,397)**	**(25,397)**	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

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

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

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

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

31 December 2017		**TL 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**	**57,726**	**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)**	**270,392**	**5,960**	**54,810**	**82**
22.	Total fair value of financial instruments used for foreign currency hedging	(1,325)	(72)	(1,253)	-
23.	Export	546,540	59,450	78,239	146
24.	Import	464,611	59,078	59,924	1,327

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

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

31 December 2016		**TL equivalent (functional currency)**	**USD**	**EUR**	**GBP**
1.	Trade receivables	470,904	76,165	53,968	613
2a.	Monetary financial assets (including cash, bank accounts)	189,090	39,445	13,552	-
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	2	-	-	-
4.	**Current assets (1+2+3)**	**659,996**	**115,610**	**67,520**	**613**
5.	Trade receivables	7,558	-	2,037	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	74	3	17	-
8.	**Non-current assets (5+6+7)**	**7,632**	**3**	**2,054**	**-**
9.	**Total assets (4+8)**	**667,628**	**115,613**	**69,574**	**613**
10.	Trade payables	(25,305)	(2,841)	(4,126)	-
11.	Financial liabilities	(491)	-	(132)	-
12a.	Monetary other liabilities	(500,458)	(108,505)	(31,937)	(29)
12b.	Non-monetary other liabilities	(25,302)	-	(6,820)	-
13.	**Current liabilities (10+11+12)**	**(551,556)**	**(111,346)**	**(43,015)**	**(29)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(74,198)	-	(20,000)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(7,754)	-	(2,090)	-
17.	**Non-current liabilities (14+15+16)**	**(81,952)**	**-**	**(22,090)**	**-**
18.	**Total liabilities (13+17)**	**(633,508)**	**(111,346)**	**(65,105)**	**(29)**
	Net balance sheet position (9+18)	**34,120**	**4,267**	**4,469**	**584**
19.	Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(25,397)	(3,000)	(4,000)	-
19a.	Hedged total assets amount	-	-	-	-
19b.	Hedged total liabilities amount	(25,397)	(3,000)	(4,000)	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**8,723**	**1,267**	**469**	**584**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**67,100**	**4,264**	**13,362**	**584**
22.	Total fair value of financial instruments used for foreign currency hedging	(52)	(24)	(28)	-
23.	Export	441,813	49,321	84,591	1,728
24.	Import	568,711	88,221	86,295	3,755

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

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 31 December 2017 and 2016:

31 December 2017		**Profit before tax** **Appreciation of foreign currency**	**Profit before tax** **Depreciation of foreign currency**
	In case 10% appreciation of USD against TL:		
1-	USD net asset/liability	**(200)**	**200**
2-	Amount hedged for USD risk (-)	-	-
3-	**USD net effect (1+2)**	**(200)**	**200**
	In case 10% appreciation of EUR against TL:		
4-	EUR net asset/liability	**328**	**(328)**
5-	Amount hedged for EUR risk (-)	-	-
6-	**EUR net effect (4+5)**	**328**	**(328)**
	In case 10% appreciation of GBP against TL		
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)**

31 December 2016		**Profit before tax** **Appreciation of foreign currency**	**Profit before tax** **Depreciation of foreign currency**
	In case 10% appreciation of USD against TL		
1-	USD net asset/liability	**446**	**(446)**
2-	Amount hedged for USD risk (-)	-	-
3-	**USD net effect (1+2)**	**446**	**(446)**
	In case 10% appreciation of EUR against TL		
4-	EUR net asset/liability	**174**	**(174)**
5-	Amount hedged for EUR risk (-)	-	-
6-	**EUR net effect (4+5)**	**174**	**(174)**
	In case 10% appreciation of GBP against TL		
7-	GBP net asset/liability	**252**	**(252)**
8-	Amount hedged for GBP risk (-)	-	-
9-	**GBP net effect (7+8)**	**252**	**(252)**
	Total (3+6+9)	**872**	**(872)**

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

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

b) Interest position table and related sensitivity analysis

Interest rate risk

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

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

As of 31 December 2017 and 2016, the financial liabilities of the Group are consisted of fixed rate bank borrowings.

Capital risk management

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

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

	31 December 2017	**31 December 2016**
Total financial liability	703,658	430,119
Less: Cash and cash equivalents (Note 4)	(228,958)	(38,598)
Net financial liability	474,700	391,521
Total equity	283,554	242,958
Financial debt/shareholders' equity factor	**167%**	**161%**

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

NOTE 29 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group's assets that are measured at fair value at 31 December 2017 and 2016:

31 December 2017

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

31 December 2016

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	52	-	52
Total	**-**	**52**	**-**	**52**

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

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

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

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

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

NOTE 30 - SUBSEQUENT EVENTS

The negotiation process of the Collective Labour Agreement between Turkish Metal Industrialists Union (MESS) of which our Company is a member and the Turkish Metal Union is signed as of 30 January 2018, effective period of the agreement is between 01 September 2017 – 31 August 2019.

NOTE 31 -OTHER MATTERS WHICH ARE SIGNIFICANT TO THE CONSOLIDATED FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.

None.

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