

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

Otokar Otomotiv ve Savunma Sanayi Anonim Őirketi

**Financial statements as of December 31, 2013
together with report of independent auditors**

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Table of contents

	<u>Page</u>
Report of independent auditors	1 - 2
Balance sheet	3 - 4
Comprehensive income statement	5
Statement of changes in equity	6
Cash flow statement	7
Notes to financial statements	8 - 66

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

		Current period (Audited)	Prior period (Audited)
	Notes	December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents	4	8.884.174	47.906.245
Trade receivables		399.220.867	224.693.650
- Due from related parties	27	71.374.049	24.550.065
- Trade receivables, third parties	8	327.846.818	200.143.585
Other receivables	9	2.524	1.715
Inventories	10	297.797.165	252.632.987
Prepaid expenses	17	74.985.116	133.453.785
Other current assets	17	17.053.925	21.480.578
Total current assets		797.943.771	680.168.960
Non-current assets			
Trade receivables	8	192.938.324	59.397.503
Other receivables	9	58.112	47.971
Estimated earnings in excess of billings on uncompleted contracts	11	93.597.289	61.325.046
Financial investments	5	239.280	239.280
Property, plant and equipment	12	120.842.623	125.112.154
Intangibles	13	126.292.737	100.041.870
Deferred tax asset	25	43.338.020	11.092.336
Total non-current assets		577.306.385	357.256.160
Total assets		1.375.250.156	1.037.425.120

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of December 31, 2013

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

		Current period (Audited) December 31, 2013	Prior period (Audited) December 31, 2012
	Notes		
Liabilities			
Current liabilities			
Short term financial liabilities	6	138.276.975	48.064.941
Short term portion of long term financial liabilities	6	2.686.797	2.028.308
Derivative financial liabilities	7	1.231.950	2.193.011
Trade payables	8	102.434.509	85.026.598
- Due to related parties	27	13.154.537	8.988.915
- Trade payables, third parties	8	89.279.972	76.037.683
Employee benefit obligations	17	19.143.540	17.165.965
Other payables	9	10.819.100	1.441.022
Deferred income	17	306.326.515	146.855.524
Government incentives and grants	14	1.467.624	670.521
Current income tax liabilities	25	7.043.047	-
Short term provisions	15	95.999.670	225.619.049
Other current liabilities	17	1.615.447	1.076.908
Total current liabilities		687.045.174	530.141.847
Non-current liabilities			
Financial liabilities	6	332.047.500	236.099.752
Government incentives and grants	14	7.055.794	2.332.562
Long term provisions		26.957.401	21.474.019
- Provision for employee benefits	16	20.616.223	17.030.080
- Other provisions	15	6.341.178	4.443.939
Deferred income	17	48.874.707	5.644.080
Total non-current liabilities		414.935.402	265.550.413
Shareholders' equity			
Parent Company's equity			
Paid-in share capital	18	24.000.000	24.000.000
Inflation adjustment on equity items	18	52.743.030	52.743.030
Restricted reserves	18	29.078.147	22.798.147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	18	(3.551.453)	(2.526.430)
Retained earnings	18	74.438.113	66.441.516
Net income for the year	18	96.561.743	78.276.597
Total shareholders' equity		273.269.580	241.732.860
Total liabilities		1.375.250.156	1.037.425.120

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Comprehensive income statement for the year ended December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

		Current Period	Prior Period
		Audited	Audited
		January 1 –	January 1 –
	Notes	December 31,	December 31,
		2013	2012
Net sales	19	1.401.552.934	1.004.492.232
Cost of sales (-)	19	(1.086.542.059)	(780.994.330)
Gross profit		315.010.875	223.497.902
Marketing, sales and distribution expenses (-)	20	(118.705.403)	(78.377.147)
General administrative expense (-)	20	(38.480.120)	(33.445.652)
Research and development expenses (-)	20	(25.796.799)	(17.645.232)
Other operating income	22	101.332.808	124.952.519
Other operating expense (-)	22	(75.374.133)	(106.502.522)
Operating profit		157.987.228	112.479.868
Income from investment activities		306.498	15.169
Expenses from investment activities		-	-
Operating income before financial income/(expense)		158.293.726	112.495.037
Financial income	23	3.007.922	5.102.020
Financial expense (-)	24	(53.053.328)	(33.414.592)
Income before tax		108.248.320	84.182.465
Tax income/expense			
- Tax expense for the year (-)	25	(43.676.005)	(3.876.947)
- Deferred tax income/ (expense)	25	31.989.428	(2.028.921)
Net income		96.561.743	78.276.597
Actuarial loss arising from employee benefits		(1.281.279)	(2.364.524)
Tax effect		256.256	472.905
Other comprehensive income/ (expense) after tax		(1.025.023)	(1.891.619)
Total comprehensive income		95.536.720	76.384.978
Earnings per share (kr)	26	0,402	0,326

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Statement of changes in equity for the year ended December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

				Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss			
	Paid-in share capital	Inflation adjustment on equity items	Restricted reserves	Actuarial gains and losses related to employee benefits	Retained earnings	Net income for the year	Total shareholders' equity
Balance at January 1, 2012 previously reported	24.000.000	52.743.030	18.118.147	-	63.640.101	54.846.604	213.347.882
Change in accounting policy (Note 2.3)	-	-	-	(634.811)	-	634.811	-
Balance at January 1, 2012 (restated)	24.000.000	52.743.030	18.118.147	(634.811)	63.640.101	55.481.415	213.347.882
Transfer to retained earnings	-	-	-	-	55.481.415	(55.481.415)	-
Transfer to restricted reserves	-	-	4.680.000	-	(4.680.000)	-	-
Dividend paid	-	-	-	-	(48.000.000)	-	(48.000.000)
Net profit for the period	-	-	-	-	-	78.276.597	78.276.597
Other comprehensive income/(expense)	-	-	-	(1.891.619)	-	-	(1.891.619)
Total comprehensive income	-	-	-	(1.891.619)	-	78.276.597	76.384.978
Balance at December 31,2012	24.000.000	52.743.030	22.798.147	(2.526.430)	66.441.516	78.276.597	241.732.860
Balance at January 1, 2013	24.000.000	52.743.030	22.798.147	-	65.806.705	76.384.978	241.732.860
Change in accounting policy (Note 2.3)	-	-	-	(2.526.430)	634.811	1.891.619	-
Balance at January 1, 2013 (restated)	24.000.000	52.743.030	22.798.147	(2.526.430)	66.441.516	78.276.597	241.732.860
Transfer to retained earnings	-	-	-	-	78.276.597	(78.276.597)	-
Transfer to restricted reserves	-	-	6.280.000	-	(6.280.000)	-	-
Dividend paid	-	-	-	-	(64.000.000)	-	(64.000.000)
Net profit for the period	-	-	-	-	-	96.561.743	96.561.743
Other comprehensive income	-	-	-	(1.025.023)	-	-	(1.025.023)
Total comprehensive income	-	-	-	(1.025.023)	-	96.561.743	95.536.720
Balance at December 31,2013	24.000.000	52.743.030	29.078.147	(3.551.453)	74.438.113	96.561.743	273.269.580

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Cash flow statement for the year ended December 31, 2013

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

		(Audited)	(Audited)
		Current period	Prior period
		January 1 –	January 1 –
	Notes	December 31,	December 31,
		2013	2012
Cash flows from operating activities			
Income before taxes		108.248.320	84.182.465
Adjustments to reconcile income before taxes to net cash flows from operating activities:			
Depreciation and amortization	12, 13	40.447.945	30.258.066
Provision for retirement pay liability	21	3.340.044	3.930.224
Provision for impairment for inventories	10, 21	(311.216)	40.236
Warranty provision expenses	15, 21	28.233.403	17.345.018
Gain on sale of property, plant and equipment		(306.498)	(15.169)
Loan interest expense	24	33.686.402	26.195.253
Unrealised foreign exchange (income) / loss incurred from borrowings		13.353.300	-
Demand deposit interest income	23	(322.326)	(1.031.089)
Provision for doubtful receivables	8, 22	2.309.088	2.736.485
Forward transactions, net		19.225.508	992.842
Operating profit before changes in operating asset and liabilities		247.903.970	164.634.331
Trade and other receivables		(310.388.076)	10.388.085
Estimated earnings in excess of billings on uncompleted contracts		(32.272.243)	(17.357.712)
Inventories		(44.852.962)	(84.121.388)
Other current assets		62.895.322	(22.126.249)
Trade payables		17.407.911	6.530.916
Other liabilities, provisions and other current liabilities		86.102.407	42.281.232
Realized gain from forward transactions, net		(20.186.570)	10.223.077
Income taxes paid		(36.632.958)	(10.116.111)
Warranties paid	15	(20.812.684)	(18.278.508)
Employee termination benefits paid	16	(2.164.301)	(1.689.112)
Net cash (used in)/provided by operating activities		(53.000.184)	80.368.561
Cash flows from investing activities			
Cash paid for acquisition of property, plant and equipment	12	(14.008.492)	(25.298.282)
Cash paid for acquisition of intangible assets	13	(50.329.976)	(46.415.541)
Proceeds from sale of property, plant and equipment		2.215.686	1.092.115
Net cash used in investing activities		(62.122.782)	(70.621.708)
Cash flows from financing activities			
Proceeds from bank borrowings		352.349.508	422.112.861
Repayments of bank borrowings		(186.193.000)	(324.424.422)
Interest payments		(26.377.939)	(17.030.560)
Interest received		322.326	1.031.089
Dividends paid		(64.000.000)	(48.000.000)
Net cash provided by financing activities		76.100.895	33.688.968
Net (decrease)/increase in cash and cash equivalents		(39.022.071)	43.435.821
Cash and cash equivalents at the beginning of the year	4	47.906.245	4.470.424
Cash and cash equivalents at the end of the year	4	8.884.174	47.906.245

The accompanying policies and explanatory notes on pages 8 through 66 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements

as of December 31, 2013

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

1. Organization and nature of operations

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

The Company operates in the automotive industry and off road vehicles, armoured vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production. The number of the personnel in the Company is 2.264 (December 31, 2012 - 2.281).

The registered addresses of the Company are as follows:

Headquarters:

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

Factory:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

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

Financial statements have been authorized for issue by the Board of Directors of the Company on February 14, 2014 and signed by Ahmet Serdar Görgüç, General Manager and Hüseyin Odabaş, Financial Vice General Manager on behalf of Board of Directors of the Company. Although there is no such intention, the Company Management and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The Company conducts part of its business transactions with the Koç Holding A.Ş. and related parties. There are certain related parties which are both customers and vendors of the Company. The Company is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul (“BIST”), previously Istanbul Stock Exchange (“ISE”) since 1996. As of December 31, 2013, the shares listed on the BIST are 29,91% of the total shares. As of December 31, 2013, the principal shareholders and their respective shareholding percentages are as follows:

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

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of presentation of financial statements

2.1 Basis of presentation

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

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

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

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

In accordance with the CMB's resolution dated March 17, 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of December 31, 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of December 31, 2013 and December 31, 2012 have been restated by applying the relevant conversion factors through December 31, 2004 and carrying additions after December 31, 2004 at their nominal values.

2.2 Comparative information and restatement of prior period financial statements

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of presentation of financial statements (continued)

The reclassifications made at the Company's financial statement of financial position as at December 31, 2012 are as follows:

- Prepaid expenses amounting to TL 1.834.083 is reclassified from other current assets to prepaid expenses as a separate line in balance sheet,
- Deferred revenues amounting to TL 1.595.339 and TL 5.644.080 is reclassified to deferred revenues-current and deferred revenues-non-current as separate lines in balance sheet from other short-term liabilities and other long-term liabilities respectively,
- Due to personnel amounting to TL 8.828.874 is reclassified from other short-term liabilities to employee benefit obligations,
- Social security premiums payable amounting to TL 3.152.862 and taxes and funds payable amounting to 5.184.229 is reclassified from other short-term liabilities to employee benefit obligations,
- Short-term portion of long-term financial liabilities amounting to TL 2.028.308 is reclassified from short-term financial liabilities to short-term portion of long-term financial liabilities as a separate line in balance sheet,
- Advances given amounting to TL 131.619.702 is reclassified from other current assets to prepaid expenses,
- Advances taken amounting to TL 145.260.185 is reclassified from other payables to deferred revenues as a separate line in balance sheet.

The reclassifications made at the Company's income statement for the period ended December 31, 2012 are as follows:

- Income from sales of fixed assets amounting to TL 15.169 is reclassified from other operating income to income from investing activities,
- Foreign exchange losses and foreign exchange gains amounting to TL 91.354.146 and TL 86.405.935 respectively related to trade receivables and payables, are reclassified from financial expense and financial income accounts to other operating expenses and operating income, respectively.
- Maturity difference income amounting to TL 13.466.940 is reclassified from financial income to other operating income.
- Foreign exchange losses and and gains amounting to TL 12.260.295 and TL 20.290.361 arising from forward transactions the Company entered against exchange risk of receivables is reclassified from financial expense and financial income accounts to other operating expenses and operating income inline with the reclassification of foreign exchanges losses and gains arising from trade receivables.

Accounting policies that are adopted in preparation of financial statements are consistent with Decemeber 31,2012 annual financial statements except the following policy that is changed within the framework of IAS 19, "Employee benefits".

The following changes are made at the Company's financial statements as of December 31,2012 prepared in accordance with Communiqué.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of presentation of financial statements (continued)

TAS 19 – Within the scope of the amendments to TAS 19 – Employee benefits, actuarial gains/losses related to employee termination benefits are recognized under equity. This practice is effective for the periods starting as of January 1, 2013 and has been implemented retrospectively. In its statement of comprehensive income, the Company has classified the actuarial loss amounting to TL 1.891.619 (with deferred tax impact netted off) under other comprehensive income, which was recognized under “general administrative expense”, “cost of sales”, “selling and marketing expense”, “research and development expense” and “deferred tax income/expense” accounts in the period ended December 31, 2012. The Company has classified the actuarial loss amounting to TL 1.891.619, with the deferred tax impact netted off, from net income to accumulated other comprehensive income and expense that is not subject to reclassification to income or loss in the balance sheet dated December 31, 2012.

As of December 31, 2012, vacation pay liability amounting to TL 3.313.961 presented in short term provisions has been reclassified to long term provisions for employee benefits due to amendments in TAS 19 “Employee Benefits” which has been effective as of 1 January 2013. According to revised TAS 19, the short term benefits provided to employees comprise the ones which are expected to be settled wholly in twelve months after the end of the reporting period. The Company’s expectation is not to settle the whole vacation pay liability within twelve months after the end of the reporting period, so the related vacation pay liabilities has been reclassified as other long-term employee benefits and the necessary amendments on the previous period financial statements has been made by the Company.

2.3 Accounting errors and changes in accounting estimates

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

Changes in estimations are applied in the current period if related to one period. They are applied forward, in the period the change occurred and in the future when they are related with the future periods.

2.4 Changes in accounting policies

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

New standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2013 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2013. The effects of these standards and interpretations on the Company’s financial position and performance have been disclosed in the related paragraphs.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

**Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)**

2. Basis of preparation financial statements (continued)

The new standards, amendments and interpretations which are effective as at January 1, 2013 are as follows:

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendment)

The amendment requires the disclosure of the rights of the entity relating to the offsetting of the financial instruments and some information about the related regulations (eg, collateral agreements). New disclosures would provide users of financial statements with information that is useful in;

- i) evaluating the effect or potential effect of netting arrangements on an entity's financial position and,
- ii) analyzing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards.

New disclosures have to be provided for all the financial instruments in the balance sheet that have been offset according to TAS 32. Such disclosures are applicable to financial instruments in the balance sheet that have not been offset according to TAS 32 but are available for offsetting according to main applicable offsetting regulations or other financial instruments that are subject to a similar agreement. The amendment affects disclosures only and did not have any impact on the financial statements of the Company.

TAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income

The amendments to TAS 1 change only the Companying of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendment affects presentation only and did not have an impact on the financial position or performance of the Company.

TAS 19 Employee Benefits (Amended)

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism, for determined benefit plans recognizing actuarial gain under other comprehensive income and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. Since the Company recognizes the actuarial gain and loss in the income statement, the amendment of the standard with regards to the accounting of actuarial gain/loss impact on the financial position or performance of the Company has been explained in Note 2.2. retrospectively. Also, based on the amendment in the presentation of short term and long term employee benefits, vacation pay liability formerly presented in the short term provisions has been retrospectively reclassified to long term provisions.

TAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the POA also amended TAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. This amendment did not have an impact on the financial position or performance of the Company.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

TAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to TFRS 11 and TFRS 12, the POA also amended TAS 28, which has been renamed as TAS 28 Investments in Associates and Joint Ventures. With these amendments; accounting of associates and joint ventures have been made by using equity method. This amendment did not have an impact on the financial position or performance of the Company.

TFRS 10 Consolidated Financial Statements

TFRS10, TAS 27 Consolidated and Separate Financial Statements address the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This amendment did not have an impact on the financial position or performance of the Company.

TFRS 11 Joint Arrangements

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard did not have an impact on the financial position or performance of the Company.

TFRS 12 Disclosure of Interests in Other Entities

TFRS 12 requires disclosures about an entity's interests in associates, joint ventures, subsidiaries and structured entities. This standard is about the presentation and did not have an impact on the Company's disclosures.

TFRS 13 Fair Value Measurement

The new standard provides guidance on how to measure fair value under TFRS but does not change when an entity is required to use fair value. It is a single source of guidance under TFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. The new disclosures has to be made, when TFRS 13 has started to disclosed. These disclosures have been presented in Note 29.

TFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. This interpretation is not applicable for the Company and did not have any impact on the financial position or performance of the Company.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

Transition Guidance (Amendments to TFRS 10, TFRS 11 and TFRS 12)

The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application is defined as ‘the beginning of the annual reporting period in which TFRS 10 is applied for the first time’. The assessment of whether control exists is made at ‘the date of initial application’ rather than at the beginning of the comparative period. If the control assessment is different between TFRS 10 and TAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons TFRS 11 and TFRS 12 has also been amended to provide transition relief. These amendments did not have an impact on the financial statements of the Company.

Improvements to TFRSs

Annual Improvements to TFRSs – 2009 – 2011 cycle, which contains amendments to its standards, is effective for annual periods beginning on or after 1 January 2013. This project did not have an impact on the financial position or performance of the Company.

TAS 1 Financial Statement Presentation:

Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

TAS 16 Property, Plant and Equipment:

Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory

TAS 32 Financial Instruments: Presentation:

Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with TAS 12 Income Taxes. The amendment removes existing income tax requirements from TAS 32 and requires entities to apply the requirements in TAS 12 to any income tax arising from distributions to equity holders.

TAS 34 Interim Financial Reporting:

Clarifies the requirements in TAS 34 relating to segment information for total assets and liabilities for each reportable segment. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual financial statements for that reportable segment.

Standards issued but not yet effective and not early adopted

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

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

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

TFRS 9 Financial Instruments – Classification and measurement

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

TFRIC Interpretation 21 Levies

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

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

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

IFRS 10 Consolidated Financial Statements (Amendment)

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial assets (Amendment)

The IASB, as a consequential amendment to IFRS 13 Fair Value Measurement, modified some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets. The amendments required additional disclosures about the measurement of impaired assets (or a Company of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. Implementation of the IFRS13, enable to use earlier. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

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

In June 2013, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement that provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

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

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

Improvements to IFRSs

In December 2013, the IASB issued two cycles of Annual Improvements to IFRSs – 2010–2012 Cycle and IFRSs – 2011–2013 Cycle. Other than the amendments that only affect the standards' Basis for Conclusions, the changes are effective as of 1 July 2014. Earlier application is permitted.

Annual Improvements to IFRSs – 2010–2012 Cycle

IFRS 2 Share-based Payment:

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

IFRS 3 Business Combinations

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

IFRS 8 Operating Segments

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

IFRS 13 Fair Value Measurement Decision Requirements

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

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

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

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

IAS 24 Related Party Disclosures

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

Annual Improvements to IFRSs – 2011–2013 Cycle

IFRS 3 Business Combinations

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

IFRS 13 Fair Value Measurement

The portfolio exception in IFRS 13 can be applied to the contracts not just financial assets and financial liabilities. The amendment is effective prospectively.

IAS 40 Investment Property

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

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

FRS 14 - interim standard on regulatory deferral accounts.

In January 2014, the IASB issued this standard. IFRS 14 permits first-time adopter rate regulated entities to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. Existing IFRS preparers are prohibited from adopting this Standard. The Standard will be applied on a full retrospective basis and is effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Standard is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

Resolutions promulgated by the Public Oversight Authority

In addition to those mentioned above, the POA has promulgated the following resolutions regarding the implementation of Turkish Accounting Standards. “The financial statement examples and user guide” became immediately effective at its date of issuance; however, the other resolutions shall become effective for the annual reporting periods beginning after 31 December 2012.

2013-1 Financial Statement Examples and User Guide

The POA promulgated “financial statement examples and user guide” on May 20, 2013 in order to ensure the uniformity of financial statements and facilitate their audit. The financial statement examples within this framework were published to serve as an example to financial statements to be prepared by companies obliged to apply Turkish Accounting Standards, excluding financial institutions established to engage in banking, insurance, private pensions or capital market. The Company has made the classification stated in Note 2.2 in order to comply with the requirements of this regulation.

2013-2 Accounting of Combinations under Common Control

In accordance with the resolution it has been decided that i) combination of entities under common control should be recognized using the pooling of interest method, ii) and thus, goodwill should not be included in the financial statements and iii) while using the pooling of interest method, the financial statements should be prepared as if the combination has taken place as of the beginning of the reporting period in which the common control occurs and should be presented comparatively from the beginning of the reporting period in which the common control occurred. This resolution did not have any impact on the financial statements of the Company.

2013-3 Accounting of Redeemed Share Certificates

Clarification has been provided on the conditions and circumstances when the redeemed share certificates shall be recognized as a financial liability or equity based financial instruments. This resolution did not have any impact on the financial statements of the Company.

2013-4 Accounting of Cross Shareholding Investments

If a subsidiary of an entity holds shares of the entity then this is defined as cross shareholding investment. Accounting of this cross investment is assessed based on the type of the investment and different recognition principles adopted accordingly. With this resolution, this topic has been assessed under three main headings below and the recognition principles for each one of them has been determined.

- i) the subsidiary holding the equity based financial instruments of the parent,
- ii) the associates or joint ventures holding the equity based financial instruments of the parent
- iii) the parent’s equity based financial instruments are held by an entity, which is accounted as an investment within the scope of TAS 39 and TFRS 9 by the parent.

This resolution did not have any impact on the financial statements of the Company.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

2.5 Significant accounting judgments and estimates

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

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

- a) In the context of IAS 11 “Construction contracts” assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended December 31, 2013, since the Management believed the -indicators demonstrating that the Company will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) Reserve for retirement pay is determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates).
- d) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- e) Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, other than related parties, are assessed with their prior year performances, their credit risk in the current market, and their individual performances after the balance sheet date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.
- f) Inventory price lists after discount is used to calculate impairment for inventories. In such cases that sales price cannot be predicted, inventory aging and physical status are considered together with technical personnel’s opinion. If anticipated expected net realizable value is less than the cost, impairment for the difference is provided for.
- g) When allocating provision for legal risks, the probabilities of failure in the cases and the possible liabilities to be arisen in the case of failure are evaluated by the management through being counseled by legal advisors of the Company. The management determines the amount of the provisions based on their best estimates.
- h) The Company has made certain important assumptions based on experiences of technical personnel in determining useful economic life of mainly related to tangible and intangible assets

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

2.6 Summary of significant accounting policies

Revenue recognition

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

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

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

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

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

Construction contract activities

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

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the income statement as incurred. Provisions for estimated losses on uncompleted contracts are made in full, in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

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).

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

Related parties

Parties are considered related to the Company if;

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (i) 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).
 - (ii) Both entities are joint ventures of the same third party.
 - (iii) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (iii) 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.
 - (iv) The entity is controlled or jointly controlled by a person identified in (a).
 - (v) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Inventories

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

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

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

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

Property, plant and equipment

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

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

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

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

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

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

Intangible assets

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

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

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:

- (a) existence of the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) existence of the intention to complete the intangible asset and use or sell it
- (c) existence of the ability to use or sell the intangible asset.
- (d) reliability of how the intangible asset will generate probable future economic benefits
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

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.

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.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

Long-term employee benefits

(a) Defined benefit plans:

Retirement pay liability

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

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

(b) Defined contribution plans:

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

Foreign currency transactions

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

Provisions

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

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

Contingent liabilities and assets

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

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

Share capital and dividend

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

Operating leases

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

Warranty expenses

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

Financial instruments

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

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

Available for sale investments

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

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (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 Company will not be able to collect all amounts due. The allowance is an estimated amount which is difference between existing receivable and collectible amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate.

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

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

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

Trade payables

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (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. Borrowing costs arising from bank loans are charged to the comprehensive income statement when they are incurred unless they are incurred for acquisition of a qualifying asset.

Derivative financial instruments

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

Impairments in financial assets

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

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

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

Recognition and derecognition of financial assets and liabilities

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (continued)

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

Foreign currency transactions

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

Earnings per share

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

The companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and share capital inflation adjustments. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends.

Accordingly, the weighted average number of shares used in earnings per share calculation is derived by giving retroactive effect to the issue of such shares.

Subsequent events

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

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

Impairment of non-financial assets

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

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

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

2. Basis of preparation financial statements (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.

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

Offsetting

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

3. Segment reporting

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

4. Cash and cash equivalents

	December 31, 2013	December 31, 2012
Cash at banks		
- Demand deposits	1.921.397	4.217.628
- Time deposits	4.071.425	39.615.000
Cheques and notes received	2.862.136	4.026.574
Other	29.216	47.043
	8.884.174	47.906.245

As of December 31, 2013, effective interest rate of time deposits which are total amounting to TL 4.071.425 is annually 4,21% and the maturity is 2 days. TL1.321.425 of this amount is foreign currency.(As of December 31, 2012, effective interest rate of time deposits which are originally amounting to TL 39.615.000 is annually 8% and the maturity is 1 day.)

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

As of December 31, 2013, the Company has restricted bank deposit amounting to TL 862 (December 31, 2012 - TL 1.362).

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

5. Financial investments

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

6. Financial liabilities

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

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

(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 696.

			December 31, 2012	
	Maturities	Interest rate (%)	TL	
Short-term bank borrowings (***)				
Denominated in TL	January 2, 2013 – January 3, 2013	-	2.028.308	
Payments of the long-term bank borrowings and interest accruals				
Denominated in TL	January 7, 2013- June 14, 2013	8,72 – 11,81	48.064.941	
Total			50.093.249	

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

6. Financial liabilities (continued)

		December 31, 2012	
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	March 26, 2014 – March 14, 2016	8,72 – 11,81	236.099.752
Total			236.099.752

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

(**) Bearing fixed interest rate

(***) Interest free credit for the SSI payment.

As of December 31, 2013, the Company has not provided any guarantees for the borrowings received (December 31, 2012 - None).

7. Derivative financial instruments

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

	Contract amount	Contract maturity	Fair values Liabilities
December 31, 2013:			
Forward transactions	170.169.265	January 9, 2014 – February 13, 2014	(1.231.950)
Short-term derivative financial instruments	170.169.265		(1.231.950)
Total derivative financial instruments	170.169.265		(1.231.950)
December 31, 2012:			
Forward transactions	213.421.206	January 31, 2013 – February 28, 2013	(2.193.011)
Short-term derivative financial instruments	213.421.206		(2.193.011)
Total derivative financial instruments	213.421.206		(2.193.011)

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

8. Trade receivables and payables

Trade receivables

	December 31, 2013	December 31, 2012
Trade receivables, net	247.876.807	100.905.085
Notes receivables, net	101.931.133	118.985.948
	349.807.940	219.891.033
Less: provision for doubtful receivables	(21.961.122)	(19.747.448)
Other short-term trade receivables	327.846.818	200.143.585
Trade receivables from related parties (Note 27)	71.374.049	24.550.065
Short-term trade receivables	399.220.867	224.693.650
Long-term trade receivables, net	178.669.298	13.255.966
Long-term notes receivable, net	14.269.026	46.141.537
Long-term trade receivables	192.938.324	59.397.503

As of December 31, 2013, average collection term for trade receivables (except notes receivables) is 60-90 days (December 31, 2012 – 60-90 days).

Guarantees received for trade receivables

Receivables of the Company mainly relate to the sales to the minibus and bus dealers, trailer sales and military vehicle sales. As of December 31, 2013, the total trade receivable from dealers amounting to TL 47.451.597 (December 31, 2012 - TL 32.065.161), after provision reserved for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 115.753.500 (December 31, 2012 - TL 32.065.161). The Company manages its credit risk for the remaining receivables through policies and procedures as explained in the Credit Risk section of Note 28.

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

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

8. Trade receivables and payables (continued)

December 31, 2012	Trade receivables
1- 30 day past due	-
1- 3 month past due	63.597
3- 12 month past due	-
1- 5 year past due	1.229.836
Over 5 year past due	-
Total	1.293.433
Amount secured with guarantee (1)	1.253.810

(1) Pledges on trailers.

The movement of the provision for doubtful receivables for the year ended December 31, 2013 and December 31, 2012 are as follows:

	December,31 2013	December,31 2012
January 1	19.747.448	18.337.536
Collections (Note 22)	(95.414)	(1.326.573)
Additional provision (Note 22)	2.309.088	2.736.485
As of December 31	21.961.122	19.747.448

Trade payables

	December,31 2013	December,31 2012
Trade payables, net	89.077.102	75.851.383
Notes payables, net	202.870	186.300
Short-term trade payables	89.279.972	76.037.683
Trade payables to related parties (Note 27)	13.154.537	8.988.915
Short-term trade payables	102.434.509	85.026.598

As of December 31, 2013, average payment term for trade payables is 45-60 days (December 31, 2012 – 45-60 days).

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

9. Other receivables and payables

Other short-term receivables

	December 31, 2013	December,31 2012
Due from personnel	2.524	1.715
Total	2.524	1.715

Other long-term receivables

	December 31, 2013	December,31 2012
Deposits and guarantees given	58.112	47.971
Total	58.112	47.971

Other short-term payables

	December 31, 2013	December,31 2012
Other miscellaneous payables	10.819.100	1.441.022
Total	10.819.100	1.441.022

10. Inventories

	December 31, 2013	December,31 2012
Raw material	126.204.804	103.285.960
Work-in-process	3.974.688	22.257.093
Finished goods	42.478.530	49.091.664
Merchandise	43.191.637	30.152.329
Goods in transit	83.251.978	49.461.629
(*) Impairment for inventories (-)	(1.304.472)	(1.615.688)
Total	297.797.165	252.632.987

(*) TL 1.049.500 of impairment is related to finished goods (December 31, 2012 - 1.394.900) and TL 254.972 is related to merchandises (December 31, 2012 - 220.788). The impairment has been accounted under cost of sales account.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

10. Inventories (continued)

The movements of impairment for inventories in 2013 are as follows:

	December 31, 2013	December,31 2012
January 1, 2013	(1.615.688)	(1.575.452)
Provision no longer required (Note 21)	311.216	(40.236)
December 31, 2013	(1.304.472)	(1.615.688)

11. Costs and billings on uncompleted contracts and other payables

Receivable from Costs and estimated earnings in excess of billings on uncompleted contracts is amounting to TL 93.597.289 as of December 31, 2013 (December 31, 2012 – TL 61.325.046) after netting with short term advance taken.

As of December 31, 2013, the short term advances taken by the Company related with ongoing projects which amounts to TL 232.113.373 was included in deferred revenues in the financial statements (December 31, 2012 – TL 93.823.684). Rest of the amount TL 36.402.368 which is included in deferred income is composed of other advance taken from customer (December 31, 2012 – TL 51.436.501) and other payables as amounting to TL 37.810.773 (December 31, 2012 – TL 1.595.339).

12. Property, plant and equipment

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

12. Property, plant and equipment (continued)

For the year ended December 31, 2012, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2012	Additions	Disposals	Transfers	December 31, 2012
Cost:					
Land	36.970.746	486.000	-	-	37.456.746
Land improvements	6.315.934	27.687	-	3.724.607	10.068.228
Buildings	57.228.511	15.000	-	2.355.385	59.598.896
Machinery, equipment and installations	88.778.684	3.028.562	(230.227)	17.212.010	108.789.029
Motor vehicles	6.936.226	3.085.172	(1.351.065)	33.498	8.703.831
Furniture and fixtures	23.123.058	3.615.445	(110.893)	1.163.438	27.791.048
Leasehold improvements	1.448.602	-	-	288.744	1.737.346
Construction in progress	10.604.273	15.040.416	-	(24.777.682)	867.007
	231.406.034	25.298.282	(1.692.185)	-	255.012.131
Accumulated depreciation:					
Land improvements	2.527.139	642.828	-	-	3.169.967
Buildings	23.662.910	2.666.600	-	-	26.329.510
Machinery, equipment and installations	72.176.019	6.820.784	(228.968)	-	78.767.835
Motor vehicles	3.601.725	500.478	(303.581)	-	3.798.622
Furniture and fixtures	14.891.289	1.733.849	(82.690)	-	16.542.448
Leasehold improvements	1.246.061	45.534	-	-	1.291.595
	118.105.143	12.410.073	(615.239)	-	129.899.977
Net book value	113.300.891				125.112.154

For the years ended December 31, 2013 and 2012, the allocation of depreciation and amortization expenses of property, plant and equipment and intangibles has been as follows:

	December 31, 2013	December 31, 2012
Research and development expenses	23.503.078	16.406.313
Cost of goods sold	5.681.297	5.505.228
Costs related to uncompleted contracts	7.002.752	4.793.921
General administrative expenses	1.333.315	1.168.816
Development projects in process	1.742.078	1.165.354
Depreciation on outstanding inventories	449.198	616.467
Selling and marketing expenses	736.227	601.967
	40.447.945	30.258.066

As of December 31, 2013 and December 31, 2012, gross values of fully depreciated items which are still in use are as follows:

	December 31, 2013	December 31, 2012
Machinery, equipment and installations	65.632.260	61.596.818
Motor vehicles	2.588.360	2.556.760
Furniture and fixtures	12.135.350	11.966.130
Leasehold improvements	1.120.006	1.120.006
	81.475.976	77.239.714

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

13. Intangible assets

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

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

For the year ended December 31, 2012, the movement of intangibles and accumulated amortization is as follows:

	January 1, 2012	Additions	Transfers	December 31, 2012
Cost:				
Other intangible assets	7.958.897	2.222.167	-	10.181.064
Development costs	80.600.486	-	33.599.779	114.200.265
Development projects in process	9.081.096	44.193.374	(33.599.779)	19.674.691
	97.640.479	46.415.541	-	144.056.020
Accumulated amortization:				
Other intangible assets	5.423.475	1.459.324	-	6.882.799
Development costs	20.742.682	16.388.669	-	37.131.351
	26.166.157	17.847.993	-	44.014.150
Net book value:	71.474.322			100.041.870

As of December 31, 2013 and December 31, 2012, the gross values of fully amortized intangible assets which are still in use are as follows:

	December 31, 2013	December,31 2012
Other intangible assets	6.131.494	3.839.842
R&D expenses (amortized)	5.848.347	2.550.970
	11.979.841	6.390.812

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

14. Government grants and incentives

	December 31, 2013	December,31 2012
Short term	1.467.624	670.521
Long term	7.055.794	2.332.562
Total	8.523.418	3.003.083

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

15. Provisions, contingent assets and liabilities

Provisions – short term

	December 31, 2013	December,31 2012
Provision for other costs	76.011.181	208.617.007
Warranty provision	18.914.980	13.391.500
Blue-collar worker salary difference provision	-	1.504.996
Cost provision of imported goods	135.774	1.039.950
Provision for sales commissions	735.433	894.634
Provision for legal cases	127.838	127.838
Provision for guarantee letter commissions	74.464	43.124
	95.999.670	225.619.049

Provisions – long term

	December 31, 2013	December,31 2012
Warranty provision	6.341.178	4.443.939
	6.341.178	4.443.939

Provision for other costs

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

15. Provisions, contingent assets and liabilities (continued)

The movements of provision for other cost are as follows:

	December 31, 2013	December,31 2012
January 1	208.617.007	183.334.944
Additional provision/payment,net	(124.345.166)	37.591.617
Foreign exchange valuation	(8.260.660)	(12.309.554)
As of December 31	76.011.181	208.617.007

Warranty provision

The Company provides one year warranty for minibus and Land Rover vehicles and 2 years warranty for certain armoured vehicle models and commercial vehicles sold. Therefore, warranty expense provision has been recorded only for the vehicles under guarantee as of the balance sheet date. The movement of the warranty expense provision is as follows:

	December 31, 2013	December,31 2012
January 1	17.835.439	18.768.929
Additional provision (Note 21)	28.233.403	17.345.018
Realized payments	(20.812.684)	(18.278.508)
As of December 31	25.256.158	17.835.439

Provision for sales commissions

The movements of provision for sales commissions are as follows:

	December 31, 2013	December,31 2012
January 1	894.634	1.920.005
Increase	717.851	1.374.984
Realized	(877.052)	(2.400.355)
As of December 31	735.433	894.634

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

15. Provisions, contingent assets and liabilities (continued)

Commitments and contingencies

As of December 31, 2013 and December 31, 2012, the tables which represent the position of guarantees, pledges and mortgages are as follow:

Guarantees given by the Company	December 31, 2013	December 31, 2012
a. Total amount of guarantees, pledges and mortgages given in the name of legal entity	796.640.829	637.586.146
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	796.640.829	637.586.146

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

	December 31, 2013		December 31, 2012	
	Original currency	TL	Original currency	TL
USD	274.909.369	586.739.066	301.585.793	537.606.836
EUR	40.592.173	119.198.916	15.175.004	35.687.056
GBP	-	-	9.192	26.387
SAR	22.000.000	12.519.320	-	-
TL	78.183.527	78.183.527	64.265.867	64.265.867
		796.640.829		637.586.146

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

	December 31, 2013	December 31, 2012
Guarantee letters given		
Under secretariat of Ministry of Defence	421.597.311	405.591.826
Other	375.043.518	231.994.320
	796.640.829	637.586.146

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

15. Provisions, contingent assets and liabilities (continued)

Letters of guarantees

a) Guarantees given as of December 31, 2013 and December 31, 2012 are as follows:

	December 31, 2013	December 31, 2012
Bank letters of guarantee (*)	796.640.829	637.586.146
	796.640.829	637.586.146

(*) Bank letter of guarantee amounting to TL 421.597.311 are given to Under Secretariat of Ministry of Defence within the scope of Altay Project. (December 31, 2012 – TL 405.591.826)

b) Guarantee received as of December 31, 2013 and 2012 as follows;

	December 31, 2013	December 31, 2012
Bank letters of guarantee (**)	331.750.195	285.704.758
Guarantee notes	37.121.748	56.509.498
Mortgages received	842.000	3.842.000
Guarantee cheques	280.000	-
	369.993.943	346.056.256

(**) Bank letters of guarantee amounting to TL 146.570.489 are obtained from the sub-contractors for Altay Project (December 31, 2012 - TL 157.770.977).

Contingent assets

The case of tax deduction related to R&D discount for the R&D activities in 2010 has ended on behalf of the Company and TL 2.923.627 has been returned to the Company. For the same case of 2011, it is subject to legal case and not concluded yet. The expected return amount of 2011 is TL 3.963.320. There is a legal case in 2012 but it has been win, it is on the appeal status. The expected effective amount as of December 31, 2013 is TL 12.517.001.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

16. Employee benefits

	December 31, 2013	December 31, 2012
Provision for retirement pay liability	16.173.142	13.716.119
Provision for vacation pay liability	4.443.081	3.313.961
Total	20.616.223	17.030.080

Reserve for retirement pay

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

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

The amount payable consists of one month's salary limited to a maximum of TL 3.254 for each year of service as of December 31, 2013 (December 31, 2012 - TL 3.034).

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

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

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

	December 31, 2013	December 31, 2012
Net discount rate (%)	4,78	3,86
Turnover rate to estimate the probability of retirement (%)	2,66	3,71

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

The movements of reserve for retirement pay are as follows:

	December 31, 2013	December 31, 2012
January 1	13.716.119	9.110.483
Interest expense	1.241.308	911.048
Current year provision (including actuarial gains/losses)	2.098.736	3.019.176
Actuarial loss	1.281.279	2.364.524
Payments	(2.164.300)	(1.689.112)
As of December 31	16.173.142	13.716.119

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

16. Employee benefits (continued)

Provision for vacation pay liability

The movements of reserve for vacation pay are as follows:

	December 31, 2013	December 31, 2012
January 1	3.313.961	2.235.464
Net increase(Note 21)	1.129.120	1.078.497
As of December 31	4.443.081	3.313.961

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

a) Prepaid expenses:

	December 31, 2013	December 31, 2012
Advances given	70.119.606	131.619.702
Prepaid expenses	4.865.509	1.834.083
Total	74.985.115	133.453.785

b) Other current assets:

	December 31, 2013	December 31, 2012
Value added tax receivables	16.242.267	17.241.400
Prepaid taxes and funds	-	2.072.249
Other	811.658	2.166.929
Total	17.053.925	21.480.578

c) Deferred income:

	December 31, 2013	December 31, 2012
Deferred maintenance revenues(*)	37.810.773	1.595.339
Advances taken	268.515.741	145.260.185
Deferred income-short term	306.326.514	146.855.524
Deferred maintenance revenues(*)	48.874.707	5.644.080
Deferred income-long term	48.874.707	5.644.080

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

d) Employee benefit obligations

	December 31, 2013	December 31, 2012
Payable to personnel	10.450.853	8.828.874
Social security premium payables	3.393.459	3.152.862
Taxes and funds payable	5.299.228	5.184.229
Total	19.143.540	17.165.965

e) Other short term liabilities

	December 31, 2013	December 31, 2012
Taxes and funds payables	827.468	718.391
Deferred special consumption tax	447.325	249.277
Other	340.654	109.240
Total	1.615.447	1.076.908

18. Shareholders' equity

Share Capital

As of December 31, 2013 and 2012, the principal shareholders and their respective shareholding percentages are as follows:

Shareholders	December 31, 2013		December 31, 2012	
	TL	%	TL	%
Koç Holding A.Ş.	10.722.750	44,68	10.722.750	44,68
Ünver Holding A.Ş.	5.954.944	24,81	5.954.944	24,81
Other	7.322.306	30,51	7.322.306	30,51
Total	24.000.000	100,00	24.000.000	100,00
Inflation adjustment on equity items	52.743.030		52.743.030	
Total	76.743.030		76.743.030	

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

18. Shareholders' equity (continued)

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

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

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

As of December 31, 2013, in the financial statements of the Company prepared in accordance with financial reporting standards published by Capital Markets Board net income of the year and prior year profits including other reserves to be distributed as dividend is TL 96.561.743 (December 31, 2012 – TL 78.276.597) and TL 74.438.113 (December 31, 2012 – TL 66.441.516), respectively. Current year net income of the Company in statutory books is TL 201.282.157 (December 31, 2012 – TL 64.221.758), other reserves to be distributed as dividend (without being subject to additional taxation) is TL 79.228.287 (December 31, 2012 – TL 85.032.212). In addition, in statutory books there is TL 16.224.790 inflation adjustment and TL 17.400.229 other capital reserves that are subject to taxation if they are distributed. After deduction of first legal reserves, current year net profit in statutory books is TL 201.282.157 (December 31, 2012 – TL 64.221.758). As of our report date, there is no decision of dividend distribution related to 2013.

In accordance with the Communiqué, as of December 31, 2013 and December 31, 2012, the details of equity, based on which the dividend will be distributed is as follows:

	December 31, 2013	December 31, 2012
Paid-in share capital	24.000.000	24.000.000
Inflation adjustment on equity items	52.743.030	52.743.030
Restricted reserves	29.078.147	22.798.147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(3.551.453)	(2.526.430)
Retained earnings		
- Extraordinary reserves	63.488.030	55.491.433
- Inflation adjustments on legal reserves	10.950.083	10.950.083
Net income for the year	96.561.743	78.276.597
Total shareholders' equity	273.269.580	241.732.860

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

18. Shareholders' equity (continued)

As of December 31, 2013 and 2012, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

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

	December 31, 2012		
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	22.798.147	10.950.083	33.748.230
Total	46.798.147	63.693.113	110.491.260

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

	December 31, 2013	December 31, 2012
Legal reserves	29.078.147	22.798.147
Extraordinary reserves	79.228.287	85.032.212
Total	108.306.434	107.830.359

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

64.000.000 48.000.000

Dividend paid per share (kuruş)

0,267 0,200

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

19. Sales and cost of sales

Net sales

	January 1 – December 31, 2013	January 1 – December 31, 2012
Domestic sales	1.176.612.836	744.807.655
Export sales	225.504.622	260.164.645
Gross sales	1.402.117.458	1.004.972.300
Less: sales discounts and sales returns	(564.524)	(480.068)
Net sales	1.401.552.934	1.004.492.232

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

	January 1 – December 31, 2013	January 1 – December 31, 2012
Commercial vehicle	789.456.300	481.503.639
Armoured vehicles	349.489.205	307.079.062
Other sales (*)	262.607.429	215.909.531
	1.401.552.934	1.004.492.232

(*) TL 151.849.248 of this amount is related to revenues of uncompleted contracts (2012 - 130.428.038 TL).

Cost of sales

	January 1 – December 31, 2013	January 1 – December 31, 2012
Cost of finished goods sold	1.031.647.409	739.511.805
Cost of merchandise sold	54.894.650	41.482.525
Cost of sales	1.086.542.059	780.994.330

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

	January 1 – December 31, 2013	January 1 – December 31, 2012
Marketing, sales and distribution expenses	118.705.403	78.377.147
General administrative expenses	38.480.120	33.445.652
Research and development expenses	25.796.799	17.645.232
Total operating expenses	182.982.322	129.468.031

21. Expenses by nature

	December 31, 2013	December 31, 2012
Cost of raw material and consumption goods	868.105.029	626.783.709
Change in finished goods and work-in-process	24.895.539	(288.737)
Cost of merchandises sold	54.894.650	41.688.944
Depreciation and amortization expense	38.245.632	29.092.605
Personnel expenses	142.885.391	111.926.656
Operational expenses	25.407.956	23.390.540
Administrative expenses	26.171.566	22.943.859
Warranty reserve expense (Note 15)	28.233.403	17.345.018
Exhibition and fair expenses	7.822.089	5.314.642
Transportation, distribution and storage expenses	10.465.057	9.356.360
Advertisement and promotion expenses	2.118.237	7.394.172
Provisions of impairment for inventories (Note 10)	(311.216)	40.236
Other expenses	40.591.048	17.838.881
Total	1.269.524.381	912.826.885

The breakdown of personnel expenses is as follows:

	January 1 – December 31, 2013	January 1 – December 31, 2012
With respect to the account:		
Cost of sales and inventories on hand	79.297.998	60.937.600
Costs related to uncompleted contracts	19.791.207	17.950.406
Capitalized development expenditures	20.035.036	16.118.033
General administrative expenses	19.295.905	16.016.642
Marketing, sales and distribution expenses	22.305.499	13.867.601
Research and development expenses	2.194.781	789.883
	162.920.426	125.680.165

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

21. Expenses by nature

	January 1 – December 31, 2013	January 1 – December 31, 2012
By nature:		
Wages and salaries	122.502.421	95.508.920
Social security premiums	20.613.487	14.526.177
Other social benefits	15.335.354	10.636.347
Employee termination benefits (Note 16)	3.340.044	3.930.224
Provision for vacation pay liability (Note 15)	1.129.120	1.078.497
Total	162.920.426	125.680.165

22. Other operating income / expenses

	January 1 – December 31, 2013	January 1 – December 31, 2012
Other income		
Foreign exchange gain from trade receivable/ payables	73.320.858	86.405.935
Forward transaction income	11.860.256	20.290.361
Maturity difference income	11.250.490	13.466.940
Incentive income	839.682	622.673
Other	4.061.522	4.166.610
Total	101.332.808	124.952.519

	January 1 – December 31, 2013	January 1 – December 31, 2012
Other expense		
Foreign exchange loss from trade receivable/ payables	(41.765.324)	(91.354.146)
Forward transaction expenses	(31.085.765)	(12.260.295)
Provision for doubtful receivables (Note 8)	(2.309.088)	(2.736.485)
Other	(213.956)	(151.596)
Total	(75.374.133)	(106.502.522)

23. Financial income

	January 1 – December 31, 2013	January 1 – December 31, 2012
Interest income from time deposits	322.326	1.031.089
Foreign exchange gains on deposits	2.443.596	4.070.931
Foreign exchange gains on bank borrowings	242.000	-
Total	3.007.922	5.102.020

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

24. Financial expense

	January 1 – December 31, 2013	January 1 – December 31, 2012
Interest expense on bank borrowings	(33.686.402)	(26.195.252)
Foreign exchange losses on deposits	(5.771.626)	(7.219.340)
Foreign exchange losses on bank borrowings	(13.595.300)	-
Total	(53.053.328)	(33.414.592)

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% (2012 - 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 2013 and 2012.

As a result of its research and development expenditures made in 2013 amounting to TL 40.528.378 (2012 – TL 39.666.087), the Company has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

25. Tax assets and liabilities (continued)

As of December 31, 2013 and 2012, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	December 31, 2013	December 31, 2012
Income tax payable	43.641.898	6.799.697
(-) Prepaid tax	(36.598.851)	(8.871.946)
Income tax payable, net	7.043.047	(2.072.249)

The breakdown of total tax expense for the year ended December 31, 2013 and 2012:

	January 1 – December 31, 2013	January 1 – December 31, 2012
Current tax charge	(43.676.005)	(3.876.947)
Deferred tax income		
Tax charged to profit for the period	31.989.428	(2.028.921)
Tax charged to other comprehensive income/expense	256.256	472.905
Total tax expense	(11.430.321)	(5.432.963)

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

	January 1 – December 31, 2013	January 1 – December 31, 2012
Profit before tax	108.248.320	84.182.465
Income tax charge at effective tax rate 20%	(21.649.664)	(16.836.493)
Effect of exemptions and incentives	9.377.679	10.856.844
Other differences	585.408	73.781
Total tax expense	(11.686.577)	(5.905.868)

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

25. Tax assets and liabilities (continued)

As of December 31, 2013 and 2012, 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)	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Property, plant and equipment	(12.975.519)	12.960.293	886.191	889.236
Intangibles	(20.553.326)	(16.526.630)	(4.110.665)	(3.305.326)
Deferred financial expense	(501.791)	(305.425)	(100.358)	(61.085)
Inventories	1.373.503	1.779.547	274.701	355.909
Warranty provision	25.256.158	17.835.439	5.051.232	3.567.088
Reserve for retirement pay	16.173.142	13.716.119	3.234.628	2.743.224
Deferred financial income	18.051.122	4.175.331	3.610.224	835.066
Other provisions	6.948.144	8.986.866	1.389.629	1.797.373
Deferred maintenance income	86.685.480	6.937.515	17.337.095	1.387.503
Adjustment for percentage of completion method on construction projects	71.706.219	13.651.109	14.341.244	2.730.222
Other	7.120.490	765.627	1.424.099	153.126
Deferred tax asset			43.338.020	11.092.336

The movement of deferred tax asset for the years ended December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012
January 1	11.092.336	12.648.352
Deferred tax income		
Tax charged to profit for the period	31.989.428	(2.028.921)
Tax charged to other comprehensive income/expense	256.256	472.905
	43.338.020	11.092.336

26. Earnings per share

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

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

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

	December 31, 2013	December 31, 2012
Net income attributable to shareholders (TL)	96.561.743	78.276.597
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (kuruş)	0,402	0,326

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

27. Related party disclosures

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

(i) Due from and due to related party balances as of December 31, 2013 and December 31, 2012:

Due from related parties	December 31, 2013	December 31, 2012
Ram Dış Ticaret A.Ş. (1) (*)	63.946.381	23.141.922
Otokar Europe SAS (3)	6.566.672	608.470
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	740.510	492.700
Aygaz A.Ş. (1)	73.609	-
Ford Otosan A.Ş. (2)	32.773	23.950
Koç Üniversitesi (1)	12.850	-
Other (1)	1.254	283.023
Total	71.374.049	24.550.065

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

Due to related parties	December 31, 2013	December 31, 2012
Ram Dış Ticaret A.Ş. (1)	6.691.466	2.471.861
Zer Merkezi Hizmetler A.Ş. (1)	2.273.182	1.583.589
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.573.987	1.588.261
Setur Servis Turistik A.Ş. (1)	732.046	904.628
Eltek Elek.Enerji İth.İhr.Top.Tic.A.Ş. (1)	372.365	-
Koçtaş Yapı Marketleri A.Ş. (1)	353.820	221.594
Opet Fuchs Madeni Yağ A.Ş. (1)	280.439	154.030
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	271.553	494.223
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	235.919	195.013
Ram Sigorta Aracılık Hz. A.Ş. (1)	202.176	483.269
Opet Petrolcülük A.Ş. (1)	91.401	54.823
Koç Holding A.Ş. (2)	74.846	49.343
Divan Turizm İşletmeleri A.Ş. (1)	1.124	66.805
Arçelik A.Ş. (1)	213	243.629
Ark İnşaat A.Ş. (1)	-	442.799
Bilkom A.Ş. (1)	-	1.463
Ford Otosan A.Ş. (2)	-	179
Promena Elektronik Ticaret A.Ş. (1)	-	33.406
Total	13.154.537	8.988.915

(1) Related parties of parent company

(2) Shareholder

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

27. Related party disclosures (continued)

ii) Major sales and purchase transactions with related parties:

Product sales and service revenue	January 1 – December 31, 2013	January 1 – December 31, 2012
Ram Dış Ticaret A.Ş. (1) (*)	186.982.566	233.281.162
Otokar Europe SAS (3)	10.381.427	607.601
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	7.705.890	6.808.068
Yapı veKredi Bankası A.Ş.(1)	1.050.000	-
Aygaz A.Ş. (1)	563.274	301.178
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	128.000	235.000
Arçelik A.Ş.	122.850	-
Ford Otosan A.Ş.(2)	785	2.116
RMK Marine (1)	257	-
Zer Merkezi Hizmetler A.Ş. (1)	-	1.610.352
Total	206.935.049	242.845.477

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

Purchase of property, plant and equipment	January 1 – December 31, 2013	January 1 – December 31, 2012
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	3.114.231	3.005.744
Ark İnşaat A.Ş.(1)	695.039	4.399.718
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	237.371	61.885
Koçtaş Yapı Marketleri A.Ş. (1)	123.955	40.802
Zer Merkezi Hizmetler A.Ş. (1)	42.534	68.494
Arçelik A.Ş. (1)	14.508	36.924
Total	4.227.638	7.613.567

Inventory purchased	January 1 – December 31, 2013	January 1 – December 31, 2012
Zer Merkezi Hizmetler A.Ş. (1)	15.965.345	10.968.070
Ram Dış Ticaret A.Ş. (1)	12.169.043	6.124.679
Akpa Dayanıklılık Tük.Paz. A.Ş. (1)	3.866.486	3.374.953
Opet Fuchs Madeni Yağ A.Ş. (1)	1.684.629	677.611
Opet Petrolcülük A.Ş. (1)	1.645.668	941.070
Koçtaş Yapı Marketleri A.Ş. (1)	1.613.674	1.005.270
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	551.629	829.041
Arçelik A.Ş. (1)	8.908	205.837
Ford Otosan A.Ş.(2)	-	392
Total	37.505.382	24.126.923

(1) Related parties of parent company

(2) Shareholder

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

27. Related party disclosures (continued)

	January 1 – December 31, 2013	January 1 – December 31, 2012
Services purchased		
Ram Dış Ticaret A.Ş. (1)	8.311.633	7.505.596
Setur Servis Turistik A.Ş. (1)	5.695.965	4.335.385
Eltek Elek.Enerji İth.İhr.Top.Tic.A.Ş. (1)	3.310.214	-
Otokar Europe SAS (3)	2.559.423	2.378.439
Koç Holding A.Ş. (2)	2.026.246	1.353.018
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	1.277.242	1.325.130
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	966.033	1.051.726
Yapı Kredi Kültür ve Sanat Yay.Tic.ve San.A.Ş.(1)	215.000	-
Koç Üniversitesi (1)	182.248	56.896
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	88.760	111.702
Divan Turizm İşletmeleri A.Ş. (1)	84.994	69.905
Promena Elektronik Ticaret A.Ş. (1)	52.660	170.752
Ram Sigorta Aracılık Hz. A.Ş. (1) (*)	51.773	34.513
Vehbi Koç Vakfı Amerikan Hastanesi (1)	37.621	-
Tanı Pazarlama ve İletişim Hizmetleri A.Ş. (1)	27.687	16.676
Rahmi Koç Vakfı Müzesi (1)	11.063	28.240
Other (1)	5.240	23.889
Total	24.903.802	18.461.867

(*) It includes paid and accrued premium as of December 31, 2013 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

	December 31, 2013	December 31, 2012
Bank deposits		
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	1.680.822	903.749
- Time deposits	2.750.000	-
	4.430.822	903.749

	December 31, 2013	December 31, 2012
Checks and notes in collection		
Yapı ve Kredi Bankası A.Ş. (1)	33.393.531	37.314.908
	33.393.531	37.314.908

(1) Related parties of parent company

(2) Shareholder

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

27. Related party disclosures (continued)

	January 1 – December 31, 2013	January 1 – December 31, 2012
Borrowings		
Yapı ve Kredi Bankası A.Ş. (1)	47.093.434	2.025.916
Total	47.093.434	2.025.916

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

	January 1 – December 31, 2013	January 1 – December 31, 2012
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	253.108	243.407
Total	253.108	243.407

	January 1 – December 31, 2013	January 1 – December 31, 2012
Foreign exchange gains		
Yapı ve Kredi Bankası A.Ş. (1)	743.129	338.928
Total	743.129	338.928

	January 1 – December 31, 2013	January 1 – December 31, 2012
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	867.470	132.332
Total	867.470	132.332

	January 1 – December 31, 2013	January 1 – December 31, 2012
Foreign exchange loss		
Yapı ve Kredi Bankası A.Ş. (1)	6.846.590	1.479.877
Total	6.846.590	1.479.877

	January 1 – December 31, 2013	January 1 – December 31, 2012
Forward gains /(losses)		
Yapı ve Kredi Bankası A.Ş. (1)		
Forward gains	-	-
Forward loss	-	21.000
Total	-	21.000

(1) Related parties of the parent company

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

27. Related party disclosures (continued)

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

	January 1 – December 31, 2013	January 1 – December 31, 2012
Exchange gain from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	3.889.529	7.493.280
Otokar Europe SAS (3)	257.949	-
Other (1)	2.331	2.308
Total	4.149.809	7.495.588
Exchange loss from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	1.602.397	8.680.101
Other (1)	16.857	13.791
Total	1.619.254	8.693.892

(1) Related parties of the parent Company

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

Benefits provided to executives

Salaries and similar benefits provided to the executive management by the Company for the year ended December 31, 2013 amounted to TL 11.649.528 (2012 - TL 9.218.838). Executives are composed of board of directors members, general manager and assistants of general manager.

28. Nature and level of risks arising from financial instruments

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

Credit risk

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

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

December 31, 2012	Receivables			
	Trade receivables	Other receivables(3)	Bank deposits	Derivative instruments
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	284.091.153	131.669.388	43.832.628	-
- Maximum risk secured by guarantee (2)	(137.969.024)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	280.915.344	131.669.388	43.832.628	-
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	1.293.433	-	-	-
D. Net book value of impaired assets	1.882.376	-	-	-
- Overdue (gross book value)	21.629.824	-	-	-
- Impairment (-) (Note 8)	(19.747.448)	-	-	-
- Net value under guarantee	1.882.376	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

(1) Guarantees received and factors increasing the loan reliability are not considered when determining this amount.

(2) Guarantees consist of guarantee notes, guarantee checks, mortgages and car pledges received from customers.

(3) The major amount of other receivables consists of advances given.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

Liquidity risk

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

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

As of December 31, 2013 and December 31, 2012, maturities of gross trade payables and financial liabilities are as follows:

December 31, 2013

Maturities per agreements	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	473.011.272	529.670.314	110.194.540	58.582.085	360.893.689	-
Trade payables	102.434.509	102.936.822	102.733.952	202.870	-	-
Expected maturities						
Expected maturities	Book value	Total expected cash outflow (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Other payables	30.790.110	30.790.110	30.790.110	-	-	-
Other current liabilities	787.977	787.977	787.977	-	-	-
Expected maturities (or maturities per agreement)						
Expected maturities (or maturities per agreement)	Book value	Total cash outflow expected / per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Derivative financial liabilities (net)	(1.231.950)	(1.231.950)	(1.231.950)	-	-	-
Derivative cash inflows	168.937.315	168.937.315	168.937.315	-	-	-
Derivative cash outflows	(170.169.265)	(170.169.265)	(170.169.265)	-	-	-

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

December 31, 2012

Maturities per agreements	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	286.193.001	333.494.844	51.751.994	16.242.844	265.500.006	-
Trade payables	85.026.598	85.332.993	85.146.693	186.300	-	-
Expected maturities						
Non-derivative financial liabilities						
Other payables	18.606.987	18.606.987	18.606.987	-	-	-
Other current liabilities	1.076.908	1.076.908	1.076.908	-	-	-
Expected maturities (or maturities per agreement)						
Derivative financial liabilities (net)						
Derivative cash inflows	(2.193.011)	(2.193.011)	(2.193.011)	-	-	-
Derivative cash outflows	211.228.195	211.228.195	211.228.195	-	-	-
	(213.421.206)	(213.421.206)	(213.421.206)	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

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

Table of foreign currency position				
December				
31, 2013				
	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	242.862.263	15.865.101	70.938.481	196.654
2a. Monetary financial assets (including cash, bank accounts)	76.038.246	31.703.749	2.844.479	5.731
2b. Non-monetary financial assets	-	-	-	-
3. Other	-	-	-	-
4. Current assets (1+2+3)	318.900.509	47.568.850	73.782.960	202.385
5. Trade receivables	192.938.324	-	65.703.499	-
6a. Monetary financial assets	93.597.289	43.853.858	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	286.535.613	43.853.858	65.703.499	-
9. Total assets(4+8)	605.436.122	91.422.708	139.486.459	202.385
10. Trade payables	(27.457.608)	(8.662.260)	(2.582.391)	(394.873)
11. Financial liabilities	(106.228.231)	-	(36.175.117)	-
12a. Monetary other liabilities	(341.994.936)	(159.450.691)	(571.880)	-
12b. Non-monetary other liabilities	(36.517.338)	-	(12.435.668)	-
13. Current liabilities (10+11+12)	(512.198.113)	(168.112.951)	(51.765.056)	(394.873)
14. Trade payables	-	-	-	-
15. Financial liabilities	(44.408.262)	-	(15.122.854)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(48.874.707)	-	(16.643.864)	-
17. Non-current liabilities (14+15+16)	(93.282.969)	-	(31.766.718)	-
18. Total liabilities (13+17)	(605.481.082)	(168.112.951)	(83.531.774)	(394.873)
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(1.231.950)	79.222.719	(58.000.000)	-
19a. Hedged total assets amount	169.085.050	79.222.719	-	-
19b. Hedged total liabilities amount	(170.317.000)	-	(58.000.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	(1.276.910)	2.532.476	(2.045.315)	(192.488)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	85.347.086	(76.690.243)	85.034.217	(192.488)
22. Total fair value of financial instruments used for foreign currency hedging	(1.231.950)	79.222.719	(58.000.000)	-
23. Export	225.652.738	64.453.906	39.423.455	1.618.704
24. Import	440.309.632	104.713.654	87.221.937	7.297.100

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

		Table of foreign currency position			
		December 31,			
		2012			
		TL equivalent (functional currency)	USD	EUR	GBP
1.	Trade receivables	158.793.258	3.871.728	64.121.523	382.100
2a.	Monetary financial assets (including cash, bank accounts)	139.389.423	71.086.883	5.339.886	39.060
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	Current assets (1+2+3)	298.182.681	74.958.611	69.461.409	421.160
5.	Trade receivables	59.397.503	-	25.257.262	-
6a.	Monetary financial assets	61.325.046	34.402.023	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets (5+6+7)	120.722.549	34.402.023	25.257.262	-
9.	Total assets(4+8)	418.905.230	109.360.634	94.718.671	421.160
10.	Trade payables	(23.416.262)	(2.241.797)	(7.608.276)	(532.134)
11.	Financial liabilities	-	-	-	-
12a.	Monetary other liabilities	(331.799.032)	(185.715.363)	(138.031)	(145.680)
12b.	Non-monetary other liabilities	(1.293.435)	-	(550.000)	-
13.	Current liabilities (10+11+12)	(356.508.729)	(187.957.160)	(8.296.307)	(677.814)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	-	-	-	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(5.644.080)	-	(2.400.000)	-
17.	Non-current liabilities (14+15+16)	(5.644.080)	-	(2.400.000)	-
18.	Total liabilities (13+17)	(362.152.809)	(187.957.160)	(10.696.307)	(677.814)
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(62.253.705)	74.575.000	(83.000.000)	-
19a.	Hedged total assets amount	150.763.395	84.575.000	-	-
19b.	Hedged total liabilities amount	(213.017.100)	(10.000.000)	(83.000.000)	-
20.	Net foreign currency asset/(liability) position (9+18+19)	(5.501.284)	(4.021.526)	1.022.364	(256.654)
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	63.689.936	(78.596.526)	86.972.364	(256.654)
22.	Total fair value of financial instruments used for foreign currency hedging	(62.253.705)	74.575.000	(83.000.000)	-
23.	Export	260.308.667	105.282.487	31.061.056	1.313.705
24.	Import	347.213.892	81.805.444	80.777.523	5.096.809

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Company's income before tax as of December 31, 2013 and 2012:

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

Exchange rate sensitivity analysis table		
December 31, 2012		
	Profit before tax	Profit before tax
	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	(716.877)	716.877
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(716.877)	716.877
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	240.429	(240.429)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	240.429	(240.429)
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(73.680)	73.680
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(73.680)	73.680
Total (3+6+9)	(550.128)	550.128

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

as of December 31, 2013

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

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

b) Interest position table and related sensitivity analysis

Interest rate risk

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

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

As of December 31, 2013 and 2012, the financial liabilities of the Company are consisted of fixed rate bank borrowings.

Capital risk management

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

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

	December 31, 2013	December 31, 2012
Total financial debt	473.011.272	286.193.001
Less: Cash and cash equivalents (Note 4)	(8.884.174)	(47.906.245)
Net financial debt	464.127.098	238.286.756
Total equity	273.269.580	241.732.860
Financial debt/shareholders' equity rate	170%	99%

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

29. Financial instruments

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

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

The following table presents the Company's assets that are measured at fair value at December 31, 2013 and 2012:

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

Liabilities	Level 1	Level 2	Level 3	Total
<u>December 31, 2012</u>				
Derivative financial instruments	-	2.193.011	-	2.193.011
Total	-	2.193.011	-	2.193.011

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)
as of December 31, 2013
(Currency –Turkish Lira (TL) unless otherwise indicated)

29. Financial instruments (continued)

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.

30. Subsequent events

None.

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

None.