

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019**

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019**

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 30 SEPTEMBER 2019

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

	Notes	(None audited) 30 September 2019	(Audited) 31 December 2018
Assets			
Current assets			
Cash and cash equivalents	4	107,979	173,017
Trade receivables	8	1,280,783	870,457
-Due from related parties	21	553,427	399,044
-Due from other parties	8	727,356	471,413
Other receivables		520	304
Inventories	9	744,173	690,013
Derivative financial instruments	7	4,578	297
Prepaid expenses	13	9,637	7,470
Other current assets	13	45,087	60,923
Total current assets		2,192,757	1,802,481
Duran varlıklar			
Trade receivables	8	2,965	7,930
-Due from third parties	8	2,965	7,930
Other receivables		1,096	707
Investments accounted for using the equity method	5	33,174	13,305
Property, plant and equipment, net	10	108,411	107,603
Right of use assets, net	10	16,507	-
Intangible assets, net	11	342,724	280,656
Deferred tax asset	19	94,605	90,064
Total non-current assets		599,482	500,265
Total assets		2,792,239	2,302,746

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 30 SEPTEMBER 2019

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

	Notes	(None audited) 30 September 2019	(Audited) 31 December 2018
Liabilities			
Current liabilities			
Short-term borrowings	6	137,266	-
-Bank borrowings	6	130,498	-
-Lease liabilities	6	6,768	-
Short-term portion of long-term borrowings	6	2,562	207,281
Bank borrowings	6	2,562	207,281
Trade payables	8	190,929	269,459
-Due to related parties	21	25,592	25,346
-Due to third parties	8	165,337	244,113
Employee benefit obligations	13	14,884	30,344
Other payables		64,602	43,292
Deferred income	13	247,122	196,791
Government grants		605	1,283
Short-term provisions	12	136,544	104,281
-Short-term provisions for employee benefits	12	12,380	10,443
-Other short-term provisions	12	124,164	93,838
Other current liabilities	13	16,562	15,409
Total current liabilities		811,076	868,140
Non-current liabilities			
Long-term borrowings	6	881,602	500,266
-Bank borrowings	6	871,016	500,266
-Lease liabilities	6	10,586	-
Government grants		1,327	1,124
Long-term provisions	12	42,573	38,235
-Long-term provisions for employee benefits	12	42,573	38,235
Deferred income	13	464,709	505,395
Total non-current liabilities		1,390,211	1,045,020
Total liabilities		2,201,287	1,913,160
Equity			
Paid-in share capital		24,000	24,000
Adjustments on share capital		52,743	52,743
Restricted reserves		73,758	66,678
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(6,935)	(3,586)
Defined benefit plans remeasurement losses		(6,935)	(3,586)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		(7,674)	12,997
Currency translation differences		(7,674)	12,997
Retained earnings		157,674	72,418
Net profit for the period		297,386	164,336
Total equity		590,952	389,586
Total liabilities and equity		2,792,239	2,302,746

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 30 SEPTEMBER 2019

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

	Notes	None audited 1 January - 30 September 2019	None audited 1 July - 30 September 2019	None audited 1 January - 30 September 2018	None audited 1 July - 30 September 2018
Revenue	14	1,877,343	593,447	808,636	320,477
Cost of sales (-)	14	(1,159,666)	(353,830)	(602,450)	(216,479)
GROSS PROFIT		717,677	239,617	206,186	103,998
Marketing expenses (-)	15	(274,638)	(77,668)	(163,652)	(60,508)
General administrative expenses (-)	15	(85,201)	(27,079)	(56,360)	(16,996)
Research and development expenses (-)	15	(42,605)	(14,098)	(36,557)	(12,104)
Other operating income	16	190,441	19,835	1,673,062	1,089,932
Other operating expenses (-)	16	(130,350)	(31,548)	(1,619,747)	(1,061,945)
OPERATING PROFIT OR LOSS		375,324	109,059	2,932	42,377
Income from investing activities		105	-	180	180
Expense from investing activities		-	-	(1)	-
Share of profit/loss of investments accounted for using the equity method, net	5	20,567	6,657	-	-
OPERATING INCOME BEFORE FINANCIAL EXPENSES		395,996	115,716	3,111	42,557
Financial income	17	46,998	28,884	26,280	14,888
Financial expense (-)	18	(149,205)	(39,960)	(124,468)	(66,502)
PROFIT BEFORE TAX		293,789	104,640	(95,077)	(9,057)
Tax income/(expense) from continued operations					
Current tax expense (-)	19	-	-	(2,393)	(2,280)
Deferred tax income/(expense)	19	3,597	(2,584)	11,564	4,150
PROFIT/ (LOSS) FOR THE PERIOD		297,386	102,056	(85,906)	(7,187)
Items that will not be reclassified to statement of profit or loss					
Remeasurement (losses)/gains		(4,293)	685	(663)	565
Deferred tax effect		944	(150)	146	(124)
Items that may be reclassified to statement of profit or loss					
Currency translation differences		(19,973)	3,071	3,490	2,580
Currency translation differences of investments accounted for using the equity method		(698)	(937)	-	-
Other comprehensive (loss)/income		(24,020)	2,669	2,973	3,021
TOTAL COMPREHENSIVE INCOME		273,366	104,725	(82,933)	(4,166)
Earnings per share (Kr)	20	1,239	0,425	(0,358)	(0,030)

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED AT 30 SEPTEMBER 2019 AND 2018

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

	Paid in share capital	Capital share adjustments	Restricted reserves	Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss	Retained earnings	Net (loss)/income for the period	Equity
				Remeasurement losses on defined benefit plans	Currency translation differences			
30 September 2018								
Opening balances	24,000	52,743	59,798	(4,880)	2,396	50,074	99,423	283,554
Transfers	-	-	6,880	-	-	92,543	(99,423)	-
Dividens paid	-	-	-	-	-	(70,000)	-	(70,000)
Total comprehensive income	-	-	-	(517)	3,490	-	(85,906)	(82,933)
Closing balances	24,000	52,743	66,678	(5,397)	5,886	72,617	(85,906)	130,621
30 September 2019								
Opening balances	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336	389,586
Transfers	-	-	7,080	-	-	157,256	(164,336)	-
Dividens paid	-	-	-	-	-	(72,000)	-	(72,000)
Total comprehensive income	-	-	-	(3,349)	(20,671)	-	297,386	273,366
Closing balances	24,000	52,743	73,758	(6,935)	(7,674)	157,674	297,386	590,952

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 30 SEPTEMBER 2019 AND 2018

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

	Notes	(Not audited) 1 January - 30 September 2019	(Audited) 1 January - 30 September 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		(22,690)	(173,156)
Adjustments to reconcile income before taxes to net cash flows from operating activities:		297,386	(85,906)
Adjustments to depreciation and amortization	10, 11	176,498	210,607
Adjustments to impairments		59,074	44,568
- Provision for trade receivables	8	2,952	14,966
- Provision for inventories	9	1,134	15,213
Adjustments to provisions		77,086	49,523
- Provision for employee benefits	12	6,206	10,904
- Warranty provision expenses	12	70,880	38,619
Adjustments to interest income and expenses		108,695	82,364
- Interest income	17	(1,570)	(2,442)
- Interest expense	18	110,265	84,806
Adjustments to unrealised foreign exchange gains and losses		(8,254)	25,997
Adjustments to fair value gains and losses		(42,383)	(6,632)
- Fair value losses/(gains) on financial derivative instruments		(42,383)	(6,632)
Adjustments for undistributed profits of investments accounted for using equity method		(20,567)	-
- Adjustments to undistributed profits of joint ventures	5	(20,567)	-
Adjustments in relation to gains or losses on sales of property, plant and equipment		(105)	(179)
- Gain on sale of property, plant and equipments		(105)	(179)
Changes in net working capital		(483,044)	(253,847)
Changes in trade receivables		(407,145)	(107,443)
Changes in due from customers on contract works		-	(221,085)
Changes in inventories		(55,978)	(337,136)
Changes in trade payables		(78,530)	255,824
Other changes		58,609	155,993
- Changes in other operating assets		13,670	175,367
- Changes in other operating liabilities		44,939	(19,374)
Cash flows from operating activities		(9,160)	(129,146)
Payments in relation to employee benefits	12	(6,161)	(6,094)
Payments in relation to other provisions	12	(45,471)	(40,864)
Other cash collections/(payments)		38,102	2,948
CASH FLOWS FROM INVESTING ACTIVITIES		(138,079)	(76,287)
Cash outflows from purchases due to obtaining control of subsidiaries		-	(58)
Proceeds from sales of property, plant and equipment and intangible assets		476	907
- Proceeds from sales of property, plant and equipment		476	907
Cash outflows due to purchases of property, plant and equipment and intangible assets		(138,555)	(77,136)
- Purchases of property, plant and equipment	10	(34,040)	(14,333)
- Purchases of intangible assets	11	(104,515)	(62,803)
CASH FLOWS FROM FINANCING ACTIVITIES		116,402	68,476
Cash inflow due from borrowings		1,580,799	1,209,070
- Proceeds from bank borrowings	6	1,580,799	1,209,070
Cash outflow due to repayment of borrowings		(1,284,719)	(998,826)
- Repayments of borrowings	6	(1,277,034)	(998,826)
Cash outflows on debt payments from leasing agreements		(7,685)	-
Dividends paid		(72,000)	(70,000)
Interest paid		(109,248)	(74,210)
Interest received		1,570	2,442
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		(44,367)	(180,967)
Currency translation differences on cash and cash equivalents		(20,671)	3,490
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(65,038)	(177,477)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	173,017	228,958
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	107,979	51,481

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

The registered addresses of the Company are as follows:

Headquarters:

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

Plant:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

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

Subsidiaries	Country	Main activity	Field of activity
Otokar Europe SAS	France	Sales and marketing	Automotive
Otokar Land Systems Limited	United Arab Emirates	Sales and marketing	Automotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Automotive

Subsidiaries	Country	Main activity	Field of activity
Al Jasoor Heavy Vehicle Industry LLC	United Arab Emirates	Sales and marketing	Automotive

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

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

	30 September 2019		31 December 2018	
	Period end	Average	Period end	Average
Total personnel number	1,966	2,003	1,966	2,044

The consolidated financial statements for the year ended 30 September 2019 were authorized for issue and signed by the Board of Directors of Otokar on 1 November 2019. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul A.Ş. (“BIST”) since 1995. As of 30 September 2019, 27.45% of the shares are quoted on the BIST.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

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

As of 30 September 2019, the principal shareholders and their respective shareholding percentages are as follows:

	30 September 2019(%)
Koç Holding A.Ş.	44.68
Ünver Holding A.Ş.	24.81
Publicly traded	27.45
Other	3.06
	100.00

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation of consolidated financial statements

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

For the period ended 30 September 2019, the Group prepared its condensed interim consolidated financial statements in accordance with the Turkish Accounting Standard No.34 Interim Financial Reporting. Condensed interim consolidated financial statements of the Group do not include all the information and disclosures required in the annual financial statements, therefore should be read in conjunction with the Group’s annual financial statements as of 31 December 2018.

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

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

2.1 Basis of presentation of consolidated financial statements (Continued)

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

Functional and presentation currency

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

2.2 Accounting policies and changes and errors in accounting estimates

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

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

IFRS 16 “Leases”

The Group as the lessee

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

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

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

Right of use asset

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

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

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

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

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

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

Lease liability

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

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

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

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

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

Extension and termination options

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

Variable lease payments

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

Exemptions and simplifications

Short-term lease payments and payments for leases of low-value assets like IT equipments (mainly printers, laptops and mobile phones etc.) are not included in the measurement of the lease liabilities in the scope of TFRS 16. Lease payments of these contracts are continued to be recognised in profit or loss in the related period.

The Group as the leaser

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

Transition to TFRS 16 “Leases”

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

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

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

The details of the right-of-use assets recognised by each asset type in financial statements as of 30 September 2019 and 1 January 2019 are as follows:

	30 September 2019	1 January 2019
Building	8,252	9,633
Vehicles	7,329	7,801
Furniture and fixtures	926	421
Total right-of-use assets	16,507	17,855

The practical expedients applied in transition

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

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

a) New standards, amendments and interpretations to existing standards as of 30 September 2019:

- **Amendment to TFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

- **Amendment to TAS 28, ‘Investments in associates and joint venture’;** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- **TFRS 16, “Leases”;** effective from annual periods beginning on or after 1 January 2019. The effects of these amendments on the financial position and performance of the Group are explained under the title “TFRS 16 Leases”
- **IFRIC 23, ‘Uncertainty over income tax treatments’;** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

- **Annual improvements 2015 - 2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - TFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - TFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - TAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.
 - TAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to TAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
- b) *Standards, amendments and interpretations that are issued but not effective as at 30 September 2019:*
 - **Amendments to TAS 1 and TAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements', and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:
 - i) Use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
 - ii) Clarify the explanation of the definition of material and
 - iii) Incorporate some of the guidance in TAS 1 about immaterial information.
 - **Amendments to TFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

- **Amendments to TFRS 9, TAS 39 and TFRS 7 - Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
- **TFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

2.3 Summary of significant accounting policies

Group accounting

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

Subsidiaries

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

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

Disposal of a subsidiary

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

2.3 Summary of significant accounting policies (Continued)

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 30 September 2019 and 31 December 2018:

Subsidiaries	2019		2018	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100.00	100.00	100.00	100.00
Otokar Land Systems Limited	100.00	100.00	100.00	100.00
Otokar Europe Filiala Bucuresti SRL	100.00	100.00	100.00	100.00

Joint ventures	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Al Jasoor Heavy Vehicle Industry LLC	49.00	49.00	49.00	49.00

NOTE 3 - SEGMENT REPORTING

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

Since Chief Executive Decision Makers (composed of key management, board members, general manager and assistant general managers) do not monitor cost of sales, operating expenses and financial expenses, the products are only monitored based on revenue (Note 14). Thus, segment reporting is not performed.

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 September 2019	31 December 2018
Banks		
- Time deposits	5,574	134,463
- Demand deposits	102,293	37,799
Cheques and notes receivable	-	596
Other	112	159
	107,979	173,017

As of 30 September 2019, TRY5,574 thousand of the total amount of time deposits amounting to are denominated in foreign currency and the annual effective interest rate is 0.15% and has a maturity of 1 days.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

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

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

As of 30 September 2019, the Group has no restricted bank deposits (31 December 2018: TRY450 thousand).

NOTE 5 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Joint ventures	2019	
	(%)	Amount
Al Jasoor Heavy Vehicle Industry LLC	49.00	33,174

The movement of joint venture as of 30 September 2019 and 2018 is as follows:

	2019	2018
1 January	13,305	-
Shares of profit/(loss)	20,567	-
Currency translation differences	(698)	-
30 September	33,174	-

The summary of the financial statements of Al Jasoor Heavy Vehicle Industry LLC, valued by the equity method, as of 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019	31 December 2018
Total assets	1,363,629	1,547,656
Total liabilities	(1,294,163)	(1,520,502)
Currency translation differences	(1,764)	-
Net assets	67,702	27,154
Ownership percentage	%49	%49
Net asset share of the Group	33,174	13,305

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 6 - BORROWINGS

Short term borrowings (*)

30 September 2019

	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank borrowings			
EUR	1 October 2019	2.00	123,672
USD	1 October 2019	5.00	1
TRY	1 October 2019	0.00	6,825
			130,498
Lease liabilities			
TRY	-	25.00	2,278
EUR	-	6.00	4,490
			6,768
Long-term bank borrowings			137,266
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Bank borrowings			
	Maturities	Annual effective interest rate (%)	TRY equivalent
EUR	-	2.35 - 3.50	2,562
			2,562
Long-term bank borrowings (*)			
	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank borrowings			
EUR	3 November 2020 - 20 September 2021	2.35 - 3.50	371,016
TRY	4 October 2021 - 3 October 2022	14.15 - 15.01	500,000
			871,016

(*) Bearing fixed interest rate.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

NOTE 6 - BORROWINGS (Continued)

Bank borrowings

	Maturities	Annual effective interest rate (%)	TRY equivalent
TRY	-	25.00	3,564
EUR	-	6.00	7,022
			10,586

Long-term bank borrowings

881,602

(*) Bearing fixed interest rate.

31 December 2018

	Maturities	Annual effective interest rate (%)	TRY equivalent
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Principals and interest accruals on the short-term portion of long-term borrowings (*)

TRY		14.27-14.44	207,281
			207,281

31 December 2018

	Maturities	Annual effective interest rate (%)	TRY equivalent
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Long-term bank borrowings (*)

TRY	9 March 2020 - 7 January 2021	16.28-33.55	440,000
EUR	6 January 2020	3.85	60,266
			500,266

(*) Bearing fixed interest rate.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

NOTE 6 - BORROWINGS (Continued)

As of 30 September 2019, the Group has not provided any guarantees for the borrowings (31 December 2018: None).

The movements of financial liabilities as of 30 September 2019 and 2018 are as follows:

	2019	2018
1 January	707,547	703,658
Financial liabilities received during the period	1,580,799	1,209,070
Principal payments (-)	(1,277,034)	(998,826)
Change in interest accruals	1,018	10,595
Changes in exchange rate differences	(8,254)	25,997
	1,004,076	950,494

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

30 September 2019	Contract amount	Current period contract maturity	Fair value assets
Forward transactions	665,782	17 October 2019 - 31 October 2019	4,578
Short-term derivative financial instruments	665,782		4,578
Total derivative financial instruments	665,782		4,578
<hr/>			
31 December 2018	Contract amount	Previous period contract maturity	Fair value assets
Forward transactions	940,306	10 January 2019 - 7 February 2019	297
Short-term derivative financial instruments	940,306		297
Total derivative financial instruments	940,306		297

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	30 September 2019	31 December 2018
Trade receivables, net	678,326	426,547
Notes receivables, net	93,302	88,378
	771,628	514,925
Less: Provision for doubtful receivables	(44,272)	(43,512)
Short-term other trade receivables	727,356	471,413
Trade receivables from related parties (Note 21)	553,427	399,044
Short-term trade receivables	1,280,783	870,457
Long-term notes receivable, net	2,965	7,930
Long-term trade receivables	2,965	7,930

As of 30 September 2019, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2018: 60-90 days).

As of 30 September 2019 and 31 December 2018 the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 30 September 2019, the total trade receivable from dealers amounting to TRY76,111 thousand (31 December 2018: TRY59,217 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY75,476 thousand (31 December 2018: TRY59,635 thousand).

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

30 September 2019	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	251
Over 5 years past due	-
	251
Amount secured with guarantees	251

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2018	Trade receivables
1 - 30 day past due	-
1 - 3 month past due	-
3 - 12 month past due	-
1 - 5 year past due	255
Over 5 years past due	-
	255
Amount secured with guarantees	255

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

The movement of the provision for doubtful receivables for the periods ended 30 September 2019 and 2018 are as follows:

	2019	2018
As of 1 January	43,512	33,985
Collections	(419)	(362)
Currency translation differences	45	702
Increase during the year	1,134	14,511
30 September	44,272	48,836

Trade payables

	30 September 2019	31 December 2018
Trade payables, net	164,825	243,707
Notes payables, net	512	406
Short-term other trade payables	165,337	244,113
Trade payables to related parties (Note 21)	25,592	25,346
Short-term trade payables	190,929	269,459

As of 30 September 2019, average payment term for trade payables is 45-60 days (31 December 2018: 45-60 days).

As of 30 September 2019 and 31 December 2018, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 9 - INVENTORIES

	30 September 2019	31 December 2018
Raw material	261,998	295,244
Semi-finished goods	97,383	23,747
Finished goods	172,516	168,122
Merchandise goods	121,026	111,391
Goods in transit	99,060	97,501
Impairment for inventories (*)	(7,810)	(5,992)
	744,173	690,013

(*) TL334 thousand of impairment is related to semi-finished goods (31 December 2018: TL127 thousand), TL350 thousand is related to merchandises (31 December 2018: TL562 thousand) and TL7,126 thousand is related to raw materials (31 December 2018: TL5,303 thousand). The impairment has been accounted for under cost of sales.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the periods ended 30 September 2019 and 30 September 2018:

	1 January 2019	Additions	Currency translation differences	Disposals	Transfers	30 September 2019
Cost						
Land	37,457	-	-	(20)	-	37,437
Land improvements	8,583	-	-	-	-	8,583
Buildings	58,489	489	-	-	-	58,978
Machinery and equipment	106,570	2,532	29	-	-	109,131
Motor vehicles	9,345	1,146	-	(127)	-	10,364
Furniture and fixtures	38,143	5,360	14	(3)	-	43,514
Leasehold improvements	1,089	26	-	-	-	1,115
Construction in process	4	1,130	-	-	(35)	1,099
	259,680	10,683	43	(150)	(35)	270,221
Accumulated depreciation						
Buildings	(4,432)	(226)	-	-	-	(4,658)
Machinery and equipment	(44,870)	(2,176)	-	-	-	(47,046)
Motor vehicles	(81,205)	(4,219)	(15)	-	-	(85,439)
Furniture and fixtures	(5,483)	(542)	-	31	-	(5,994)
Leasehold improvements	(15,245)	(2,521)	(8)	1	-	(17,773)
	(842)	(58)	-	-	-	(900)
	(152,077)	(9,742)	(23)	32	-	(161,810)
Net book value	107,603					108,411

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2018	Additions	Currency translation differences	Disposal	Transfers	30 September 2018
Cost						
Land	37,457	-	-	-	-	37,457
Land improvements	12,355	-	-	(3,825)	48	8,578
Buildings	60,729	17	-	(2,368)	111	58,489
Machinery and equipment	110,616	4,043	416	(11,267)	1,181	104,989
Motor vehicles	9,608	950	-	(1,024)	-	9,534
Furniture and fixtures	38,938	2,222	170	(8,623)	1,962	34,669
Leasehold improvements	2,131	146	-	(375)	-	1,902
Construction in process	1,454	6,369	-	-	(3,360)	4,463
	273,288	13,747	586	(27,482)	(58)	260,081
Accumulated depreciation						
Land improvements	(7,962)	(227)	-	3,825	-	(4,364)
Buildings	(44,651)	(1,940)	-	2,368	-	(44,223)
Machinery and equipment	(90,556)	(3,644)	(251)	11,267	-	(83,184)
Motor vehicles	(5,403)	(547)	-	399	-	(5,551)
Furniture and fixtures	(21,911)	(1,848)	(129)	8,520	-	(15,368)
Leasehold improvements	(1,796)	(187)	-	375	-	(1,608)
	(172,279)	(8,393)	(380)	26,754	-	(154,298)
Net book value	101,009					105,783

The distribution of depreciation and amortization expenses of tangible and intangible assets for the periods ended 30 September 2019 and 2018 are as follows:

	30 September 2019	30 September 2018
Research and development expenses	41,119	34,724
Right of use assets	6,850	-
Cost of sales	4,236	3,712
General administrative expenses	2,386	1,403
Activities under development	2,009	1,652
Depreciation on inventories	1,574	1,694
Selling and marketing expenses	727	965
Currency translation differences	173	380
Costs related to uncompleted contracts	-	38
	59,074	44,568

Right of use assets

During the period, the Group has capitalized on the right of use assets of TL23,357. As of 30 September 2019, net book value of the right of use assets is TL16,507. As of 30 September 2019, assets and accumulated depreciation amounts are as follows:

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

As of 30 September 2019	Buildings	Vehicles	Furniture and fixtures	Total
Costs	10,834	11,492	1,031	23,357
Accumulated depreciation	(2,582)	(4,163)	(105)	(6,850)
	8,252	7,329	926	16,507

NOTE 11 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the periods ended 30 September 2019 and 2018:

	1 January 2019	Additions	Currency translation differences	Disposals	Transfers	30 September 2019
Cost						
Other intangible assets	18,249	1,780	-	-	35	20,064
Development costs	427,570	-	-	-	1,455	429,025
Development projects in progress	92,439	102,735	-	-	(1,455)	193,719
	538,258	104,515	-	-	35	642,808
Accumulated amortization						
Other intangible assets	(13,017)	(1,363)	-	-	-	(14,380)
Development costs	(244,58)	(41,119)	-	-	-	(285,704)
	(257,602)	(42,482)	-	-	-	(300,084)
Net book value	280,656					342,724

	1 January 2018	Additions	Currency translation differences	Disposals	Transfers	30 September 2018
Cost						
Other intangible assets	20,231	710	-	(4,408)	58	16,591
Development costs	345,703	167	-	-	3,539	349,409
Development projects in progress	66,683	61,926	-	-	(3,539)	125,070
	432,617	62,803	-	(4,408)	58	491,070
Accumulated amortization						
Other intangible assets	(15,965)	(1,071)	-	4,408	-	(12,628)
Development costs	(196,788)	(34,724)	-	-	-	(231,512)
	(212,753)	(35,795)	-	4,408	-	(244,140)
Net book value	219,864					246,930

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	30 September 2019	31 December 2018
Provision for warranty expenses	69,187	43,778
Employee benefits short-term provisions	12,380	10,443
Other	54,977	50,060
	136,544	104,281

Warranty provision

The Group covers the vehicles it has sold for a period of 2 years.

Accordingly, as of the balance sheet date, a provision is provided for the warranty expenses for the vehicles under warranty.

As of 30 September 2019 and 2018, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	2019	2018
1 January	43,778	53,065
Increase/(decrease) in the period, net	70,880	38,619
Paid during the period	(45,471)	(40,864)
As of 30 September	69,187	50,820

Provisions for employee benefits

	30 September 2019	31 December 2018
Provision for employment termination benefits	42,573	38,235
Provision for unused vacation	12,380	10,443
	54,953	48,678

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TRY6,379.86 in full for each year of service as of 30 September 2019 (31 December 2018: TRY5,434.42 in full).

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	30 September 2019	31 December 2018
Net discount rate (%)	5.65	5.65
Turnover rate to estimate the probability of retirement (%)	97.70	96.76

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. as the maximum liability is revised semi-annually, the maximum amount of TRY 6,379.86 effective from 1 July 2019 has been taken into consideration in calculating the provision for consolidated employment termination benefits (1 January 2019: TRY6,017.60).

As of 30 September 2019 and 2018, the movements of provision for employment termination benefits are as follows:

	2019	2018
1 January	38,235	31,693
Interest expense	2,595	2,151
Charge for the period	3,611	8,753
Remeasurement differences	4,293	663
Payments	(6,161)	(6,094)
As of 30 September	42,573	37,166

Provision for unused vacation

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

	2019	2018
1 January	10,443	9,286
Charge for the period, net	1,937	1,255
As of 30 September	12,380	10,541

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Commitments and contingencies

As of 30 September 2019 and 31 December 2018, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	30 September 2019	31 December 2018
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,127,235	1,379,859
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
	1,127,235	1,379,859

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

	30 September 2019		31 December 2018	
	Original currency	TRY equivalent	Original currency	TRY equivalent
USD	156,487	885,576	201,235	1,058,679
EUR	22,415	138,607	46,295	279,068
RON	209	271	-	-
TRY	102,781	102,781	42,112	42,112
		1,127,235		1,379,859

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

	30 September 2019	31 December 2018
Guarantee letters given		
Under secretariat of Ministry of Defense	96,300	251,984
Other	1,030,935	1,127,875
	1,127,235	1,379,859

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Guarantee letters

a) Guarantees given as of 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
Bank letters of guarantee	1,127,235	1,379,859
	1,127,235	1,379,859

b) Guarantees received as of 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
Bank letters of guarantee	250,614	336,045
Guarantee notes	16,660	20,195
Mortgages received	4,020	20
	271,294	356,260

Contingent asset

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 and 2015 was concluded in favor of the Group and the same cases is still in progress at appeal phase. The decisions related with the cases at the appeal phase for 2011, 2012 and 2013 were in favor but revision of decision was requested by oversight. The appeal stages for 2014 and 2015 still continues.

NOTE 13 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES

a) Prepaid expenses:

	30 September 2019	31 December 2018
Prepaid expenses	9,637	7,470
	9,637	7,470

b) Other current assets

	30 September 2019	31 December 2018
Value added tax receivables	42,460	57,546
Other	2,627	3,377
	45,087	60,923

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 13 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES (Continued)

c) Obligations arising from customer contracts

Liabilities arising from customer contracts, short-term	30 September 2019	31 December 2018
Advances received	226,968	191,607
Deferred maintenance revenues	20,154	5,184
	247,122	196,791

Liabilities arising from customer contracts, long-term	30 September 2019	31 December 2018
Advances received	336,898	469,884
Deferred maintenance revenues	127,811	35,511
	464,709	505,395

d) Employee benefits obligation

	30 September 2019	31 December 2018
Payables to employees	3,998	14,520
Social security payables	8,101	8,014
Taxes and funds payable	2,785	7,810
	14,884	30,344

e) Other current liabilities:

	30 September 2019	31 December 2018
Taxes and funds payable	15,037	13,688
Deferred special consumption tax	615	911
Payables to shareholders	113	105
Other	797	705
	16,562	15,409

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 14 - REVENUE AND COST OF SALES

Net sales

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Domestic sales	352,702	103,343	446,258	113,358
Export sales	1,539,218	496,329	371,210	210,402
Gross sales	1,891,920	599,672	817,468	323,760
Less: sales discounts and returns	(14,577)	(6,225)	(8,832)	(3,283)
Net sales	1,877,343	593,447	808,636	320,477

Sales of the Group for the periods ended 30 September 2019 and 2018 in terms of the products are as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Commercial vehicle	909,550	257,558	575,666	243,237
Armored vehicle	742,617	239,531	59,736	20,048
Accrued earnings related to construction contracts	-	-	23,896	-
Other sales (*)	225,176	96,358	149,338	57,192
	1,877,343	593,447	808,636	320,477

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

Cost of sales

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Cost of finished goods sold	(1,058,983)	(310,573)	(530,753)	(188,601)
Cost of merchandise goods sold	(100,683)	(43,257)	(71,697)	(27,878)
Cost of sales	(1,159,666)	(353,830)	(602,450)	(216,479)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 15 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Marketing expenses	(274,638)	(77,668)	(163,652)	(60,508)
General administrative expenses	(85,201)	(27,079)	(56,360)	(16,996)
Research and development expenses	(42,605)	(14,098)	(36,557)	(12,104)
	(402,444)	(118,845)	(256,569)	(89,608)

NOTE 16 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Other operating income				
Foreign exchange gains on operating activities	91,558	(15,430)	1,608,439	1,066,423
Gain on forward transactions	62,748	29,163	27,521	11,682
Revenue from charge of due date receivables	21,200	3,412	21,831	9,466
Incentives income	1,108	370	1,455	485
Other income	13,827	2,320	13,816	1,876
	190,441	19,835	1,673,062	1,089,932
Other operating expense				
Foreign exchange loss on operating activities	(108,789)	(28,033)	(1,584,008)	(1,042,708)
Loss on forward transactions	(20,365)	(5,784)	(20,888)	(9,458)
Provision for doubtful receivables	(1,134)	2,221	(14,511)	(9,778)
Expected credit losses on trade receivables	(62)	48	(340)	(1)
	(130,350)	(31,548)	(1,619,747)	(1,061,945)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

NOTE 17 - FINANCIAL INCOME

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Foreign exchange gains on deposits	12,544	2,619	20,599	11,082
Foreign exchange gains on bank borrowings	32,884	25,912	3,239	3,239
Interest income from time deposits	1,570	353	2,442	567
	46,998	28,884	26,280	14,888

NOTE 18 - FINANCIAL EXPENSES

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Interest expense from time deposits	(110,265)	(37,585)	(84,806)	(38,211)
Foreign exchange losses on deposits	(12,458)	13,443	(10,184)	(4,933)
Foreign exchange losses on bank borrowings	(24,630)	(14,875)	(29,236)	(23,298)
Other	(1,852)	(943)	(242)	(60)
	(149,205)	(39,960)	(124,468)	(66,502)

NOTE 19 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 22%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 22% (2018 - 22%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

As of 30 September 2019 and 31 December 2018, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	30 September 2019	31 December 2018
Income tax payable	-	632
Prepaid taxes (-)	(699)	(65)
Current period tax liability/(asset)	(699)	567

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of total tax expense for the periods ended 30 September 2019 and 2018 are as follows:

	1 January - 30 September 2019	1 January - 30 September 2018
Current period tax charge	-	(2,393)
Deferred tax income/expense reflected in profit or loss		
Charged to profit for the period	3,597	11,564
Charged to other comprehensive income	944	146
	4,541	9,317

As of 30 September 2019 and 31 December 2018, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative temporary differences		Deferred tax Assets	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
Incentives from research and development activities (*)	226,916	334,643	49,922	73,621
Deferred maintenance income	151,106	41,876	23,674	6,511
Other provisions	70,569	42,096	14,114	8,419
Warranty provision	69,187	43,778	14,485	9,403
Provision for employment termination benefits	42,573	38,235	8,515	7,647
Provision for unused vacation	12,380	10,443	2,724	2,298
Inventories	8,018	6,519	1,762	1,424
Provisions for doubtful receivables	2,196	2,187	483	481
Deferred financial expenses	(1,046)	(1,410)	(230)	(310)
Deferred financial income	(1,454)	880	(320)	194
Property, plant and equipment	(21,325)	(19,389)	(784)	(396)
Intangible assets	(64,311)	(71,733)	(12,862)	(14,347)
Other	(26,304)	(24,019)	(6,878)	(4,881)
Deferred tax assets, net			94,605	90,064

- (*) The Company's incentive income from investments with incentive certificate are subject to corporate income tax exemption tax at reduced rates being effective starting from the period that investment is partially or entirely operated and till the period that investment reaches the contribution amount. In this context, as of 30 September 2019, the tax advantage of TRY226,916 thousand (31 December 2018: TRY334,643 thousand), which the Company will use in the foreseeable future, has been recognized in the financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before was not been calculated since the case regarding the use of tax benefit of TRY164,801 thousand for aforementioned years is still going on.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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

NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

The movement of deferred tax asset for the periods ended 30 September 2019 and 2018 are as follows:

	2019	2018
1 January	90,064	46,606
Deferred tax income reflected in other comprehensive income and profit or loss		
- Charged to profit for the period	3,597	11,564
- Charged to other comprehensive income	944	146
As of 30 September	94,605	58,316

NOTE 20 - EARNINGS PER SHARE

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

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

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

	30 September 2019	30 September 2018
Net profit/(loss) for the period	297,386	(85,906)
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Kr)	1,239	(0,358)

NOTE 21 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 30 September 2019 and 31 December 2018:

Due from related parties	30 September 2019	31 December 2018
Al Jasoor Heavy Vehicle Industry LLC (3) (*)	431,213	126,822
Ram Dış Ticaret A.Ş. (1) (**)	121,843	271,758
Other (1)	371	464
	553,427	399,044

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

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

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Due to related parties	30 September 2019	31 December 2018
Ram Dış Ticaret A.Ş. (1)	21,433	6,916
Zer Merkezi Hizmetler A.Ş. (1)	817	5,836
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	561	788
Setur Servis Turistik A.Ş. (1)	553	1,245
Opet Fuchs Madeni Yağ A.Ş. (1)	267	240
Ford Otosan A.Ş. (1), (2)	202	-
Ram Sigorta Aracılık Hiz. A.Ş. (1)	113	184
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	94	931
Other (1)	1,552	9,206
	25,592	25,346

Advances received from related parties	30 September 2019	31 December 2018
Al Jasoor Heavy Vehicle Industry LLC (3) (*)	555,327	652,617
	555,327	652,617

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

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

Sales of products and services	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Al Jasoor Heavy Vehicle Industry LLC (3)	598,197	212,277	-	-
Ram Dış Ticaret A.Ş. (1) (*)	177,087	56,336	117,312	85,664
Other (1)	84	9	194	12
	775,368	268,622	117,506	85,676

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

Fixed asset purchases	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Koç Sistem Bilgi ve İletişim Hizm. A.Ş (1)	2,710	928	1,313	309
Other (1)	354	106	77	42
	3,064	1,034	1,390	351

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Inventory purchases				
Zer Merkezi Hizmetler A.Ş. (1)	31,139	11,737	24,768	11,132
Türk Traktör ve Ziraat Mak. A.Ş. (1)	2,196	-	-	-
Ram Dış Ticaret A.Ş. (1)	3,416	1,390	5,392	2,089
Opet Petrolcülük A.Ş. (1)	2,577	910	2,919	947
Opet Fuchs Madeni Yağ A.Ş. (1)	2,330	824	1,938	666
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2,021	613	1,644	607
Other (1)	361	279	199	125
	44,040	15,753	36,860	15,566

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Service purchases				
Ram Dış Ticaret A.Ş. (1)	48,943	26,438	10,381	1,383
Ram Sigorta Aracılık Hz. A.Ş. (1) (*)	5,873	437	4,475	538
Setur Servis Turistik A.Ş. (1)	7,970	2,792	6,716	2,773
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	4,803	1,738	4,377	2,037
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	2,633	842	6,206	534
Koç Holding A.Ş. (2) (**)	3,701	1,912	2,533	873
Other (1)	3,526	2,178	3,253	1,330
	77,449	36,337	37,941	9,468

(*) It includes paid and accrued premium as of 30 September 2019 and 2018 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

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

Bank deposits	30 September 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	5,574	15,631
- Demand deposits	1	471
	5,575	16,102

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Checks and notes in collection	30 September 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)	3,175	2,662
	3,175	2,662

For the periods ended 30 September 2019 and 2018, financial income and expense with related parties:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Foreign exchange gains on trade receivables and payables				
Ram Dış Ticaret A.Ş. (1)	45,727	15,828	28,304	15,937
Zer Merkezi Hizmetler A.Ş. (1)	254	94	14	8
	45,981	15,922	28,318	15,945

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Foreign exchange loss on trade receivables and payables				
Ram Dış Ticaret A.Ş. (1)	168,144	161,888	1,918	1,481
Zer Merkezi Hizmetler A.Ş. (1)	343	42	874	594
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	6	1	48	23
	168,493	161,931	2,840	2,098

For the periods ended 30 September 2019 and 2018, financial income and expense with related parties:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Interest income				
Yapı ve Kredi Bankası A.Ş. (1)	246	115	424	413
	246	115	424	413

(1) Related parties of the parent company

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Interest expenses				
Yapı ve Kredi Bankası A.Ş. (1)	16,003	5,760	213	163
	16,003	5,760	213	163

For the periods ended 30 September 2019 and 2018, financial income and expense with related parties:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Exchange difference incomes				
Yapı ve Kredi Bankası A.Ş. (1)	3,772	335	3,049	2,076
	3,772	335	3,049	2,076

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Exchange difference expenses				
Yapı ve Kredi Bankası A.Ş. (1)	4,974	1,782	5,799	3,103
	4,974	1,782	5,799	3,103

(1) Related parties of the parent company

Benefits provided to senior executives

For the year ended 30 September 2019, the total amount of benefits provided to senior management is TRY7.053 thousand (30 September 2018: TRY5,744 thousand). The senior executives consist of board members, general manager and deputy general managers.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 22 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Foreign currency risk and related sensitivity analysis

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

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

30 September 2019	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	1,163,697	79,262	115,652	-
2a. Monetary financial assets (including cash, bank accounts)	7,942	384	933	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	11	2	-	-
4. Current assets (1+2+3)	1,171,650	79,648	116,585	-
5. Trade receivables	2,962	-	479	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	2,962	-	479	-
9. Total assets (4+8)	1,174,612	79,648	117,064	-
10. Trade payables	(108,165)	(14,560)	(4,156)	(10)
11. Financial liabilities	(126,232)	-	(20,414)	-
12a. Monetary other liabilities	(5,760)	(780)	(185)	(29)
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(240,157)	(15,340)	(24,755)	(39)
14. Trade payables	-	-	-	-
15. Financial liabilities	(371,016)	-	(60,000)	-
16a. Monetary other liabilities	(420,504)	(74,306)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(791,520)	(74,306)	(60,000)	-
18. Total liabilities (13+17)	(1,031,677)	(89,646)	(84,755)	(39)
Net balance sheet position (9+18)	142,935	(9,998)	32,309	(39)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(134,639)	10,628	(31,500)	-
19a. Hedged total assets amount	195,963	34,628	-	-
19b. Hedged total liabilities amount	(330,602)	(24,000)	(31,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	8,296	630	809	(39)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	142,924	(10,000)	32,309	(39)
22. Total fair value of financial instruments used for foreign currency hedging	(4,578)	(3,397)	(1,181)	-
23. Export (As of 30 September 2019)	1,530,133	126,654	69,344	2,393
24. Import (As of 30 September 2019)	469,545	33,868	42,998	789

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 22 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2018	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	1,016,041	98,890	60,934	19
2a. Monetary financial assets (including cash, bank accounts)	26,124	1,183	2,739	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	66	11	-	-
4. Current assets (1+2+3)	1,042,231	100,084	63,673	19
5. Trade receivables	7,583	-	1,091	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	42	7	-	-
8. Non-current assets (5+6+7)	7,625	7	1,091	-
9. Total assets (4+8)	1,049,856	100,091	64,764	19
10. Trade payables	(208,052)	(29,871)	(4,149)	(36)
11. Financial liabilities	(69,846)	-	(10,049)	-
12a. Monetary other liabilities	(81,729)	(10,869)	(2,360)	(28)
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(359,627)	(40,740)	(16,558)	(64)
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	(642,412)	(107,244)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(642,412)	(107,244)	-	-
18. Total liabilities (13+17)	(1,002,039)	(147,984)	(16,558)	(64)
Net balance sheet position (9+18)	47,817	(47,893)	48,206	(45)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(50,863)	47,784	(48,500)	-
19a. Hedged total assets amount	286,236	47,784	-	-
19b. Hedged total liabilities amount	(337,099)	-	(48,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	(3,046)	(109)	(294)	(45)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	47,709	(47,911)	48,206	(45)
22. Total fair value of financial instruments used for foreign currency hedging	(5,009)	-	(5,009)	-
23. Export (As of 30 September 2018)	364,190	7,401	57,146	27
24. Import (As of 30 September 2018)	411,378	40,349	39,346	954

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NOTE 22 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 30 September 2019 and 31 December 2018:

30 September 2019	<u>Profit before tax</u> <u>Appreciation of</u> <u>foreign currency</u>	<u>Profit before tax</u> <u>Depreciation of</u> <u>foreign currency</u>
<i>In case 10% appreciation of USD against TRY :</i>		
1- USD net asset/(liability)	357	(357)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	357	(357)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/(liability)	500	(500)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	500	(500)
<i>In case 10% appreciation of GBP against TRY:</i>		
7- GBP net asset/(liability)	(27)	27
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(27)	27
Total (3+6+9)	830	(830)

31 December 2018	<u>Profit before tax</u> <u>Appreciation of</u> <u>foreign currency</u>	<u>Profit before tax</u> <u>Depreciation of</u> <u>foreign currency</u>
<i>In case 10% appreciation of USD against TRY</i>		
1- USD net asset/(liability)	457	(457)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	457	(457)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/(liability)	887	(887)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	887	(887)
<i>In case 10% appreciation of GBP against TRY:</i>		
7- GBP net asset/(liability)	289	(289)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	289	(289)
Total (3+6+9)	1,633	(1,633)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 23 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group’s assets that are measured at fair value at 30 September 2019 and 31 December 2018:

30 September 2019

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	4,578	-	4,578
	-	4,578	-	4,578

31 December 2018

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

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

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2019

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NOTE 24 - SUBSEQUENT EVENTS

None.

NOTE 25 - OTHER MATTERS WHICH ARE SIGNIFICANT TO THE CONSOLIDATED FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.

None.