

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2017**

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2017

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

	Notes	(Unaudited) 31 March 2017	(Audited) 31 December 2016
Assets			
Current assets			
Cash and cash equivalents	4	4,105	38,598
Trade receivables	8	515,499	388,658
<i>Due from related parties</i>	22	35,823	29,437
<i>Due from other parties</i>	8	479,676	359,221
Other receivables		8	20
Due from customers on contract works	10	256,308	245,830
Inventories	9	479,838	493,870
Derivative financial instruments	7	-	52
Prepaid expenses	14	190,650	176,766
Other current assets	14	83,254	106,138
Total current assets		1,529,662	1,449,932
Non-current assets			
Trade receivables	8	6,389	9,174
Other receivables		203	234
Financial investments	5	41	41
Property, plant and equipment	11	103,323	105,102
Intangible assets	12	187,685	181,932
Deferred tax asset	20	38,237	37,853
Total non-current assets		335,878	334,336
Total assets		1,865,540	1,784,268

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2017

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

	Notes	(Unaudited) 31 March 2017	(Audited) 31 December 2016
Liabilities			
Current liabilities			
Short-term borrowings	6	63,023	3
Short-term portion of long-term borrowings	6	6,234	4,669
Derivative financial instruments	7	291	-
Trade payables	8	214,164	401,145
<i>Due to related parties</i>	22	6,202	11,017
<i>Due to other parties</i>	8	207,962	390,128
Employee benefit obligations	14	12,693	21,440
Other payables, third parties		39,177	37,958
Deferred revenue	14	96,245	200,624
Government grants		2,102	2,156
Short-term provisions	13	427,978	387,144
<i>Provisions for employee benefits</i>		9,753	8,491
<i>Other provisions</i>		418,225	378,653
Other current liabilities	14	19,045	11,200
Total current liabilities		880,952	1,066,339
Non-current liabilities			
Borrowings	6	719,408	425,447
Government grants		2,897	3,382
Long-term provisions	13	39,946	38,388
<i>Provisions for employee benefits</i>		29,646	28,088
<i>Other provisions</i>		10,300	10,300
Deferred revenue	14	3,527	7,754
Total non-current liabilities		765,778	474,971
Total liabilities		1,646,730	1,541,310
Equity			
Paid-in share capital		24,000	24,000
Inflation adjustment on share capital		52,743	52,743
Restricted reserves		59,798	54,015
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(6,520)	(4,986)
<i>Defined benefit plans remeasurement losses</i>		(6,520)	(4,986)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		1,567	1,329
<i>Currency translation differences</i>		1,567	1,329
Retained earnings		50,074	46,132
Net profit for the period		37,148	69,725
Total equity		218,810	242,958
Total liabilities and equity		1,865,540	1,784,268

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTH INTERIM PERIOD ENDED AS OF 31 MARCH 2017

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

	Notes	(Unaudited) 1 January – 31 March 2017	(Unaudited) 1 January – 31 March 2016
Net Sales	15	566,419	358,832
Cost of Sales (-)	15	(427,407)	(267,027)
GROSS PROFIT		139,012	91,805
Marketing expenses (-)	16	(59,138)	(45,890)
General administrative expenses (-)	16	(18,283)	(15,006)
Research and development expenses (-)	16	(10,921)	(9,448)
Other operating income	17	121,592	60,311
Other operating expenses (-)	17	(106,003)	(54,883)
OPERATING PROFIT		66,259	26,889
Income from investing activities		42	8
OPERATING INCOME BEFORE FINANCIAL EXPENSES		66,301	26,897
Financial income	18	3,173	1,874
Financial expense (-)	19	(32,326)	(19,054)
PROFIT BEFORE TAX		37,148	9,717
Tax income/expense from continued operations			
Current tax expense	20	-	807
Deferred tax income/(expense)	20	-	(2,357)
PROFIT FOR THE PERIOD		37,148	8,167
Items that will not be reclassified to statement of profit or loss			
Remeasurement losses on employee benefits		(1,918)	(226)
Deferred tax income/(expense)		384	45
Items that may be reclassified to statement of profit or loss			
Currency translation differences		238	17
Other comprehensive expense		(1,296)	(164)
TOTAL COMPREHENSIVE INCOME		35,852	8,003
Earnings per share (Piaster)	21	0.155	0.034

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

	Paid in share capital	Inflation 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 income for the period	Total equity
				Remeasurement losses on defined benefit plans	Currency translation differences			
Previous Period								
Opening Balances	24,000	52,743	46,935	(3,859)	(70)	46,392	79,506	245,647
Transfers	-	-	-	-	-	79,506	(79,506)	-
Dividends paid	-	-	-	-	-	(72,000)	-	(72,000)
Total comprehensive income	-	-	-	(181)	17	-	8,167	8,003
Closing Balances	24,000	52,743	46,935	(4,040)	(53)	53,898	8,167	181,650
Current Period								
Opening Balances	24,000	52,743	54,015	(4,986)	1,329	46,132	69,725	242,958
Transfers	-	-	5,783	-	-	63,942	(69,725)	-
Dividends paid	-	-	-	-	-	(60,000)	-	(60,000)
Total comprehensive income	-	-	-	(1,534)	238	-	37,148	35,852
Closing Balances	24,000	52,743	59,798	(6,520)	1,567	50,074	37,148	218,810

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

	Notes	(Unaudited) 1 January - 31 March 2017	(Unaudited) 1 January - 31 March 2016
CASH FLOWS FROM OPERATING ACTIVITIES		(285,840)	8,700
Net profit for the period		37,148	8,167
Adjustments to reconcile income before taxes to net cash flows from operating activities:		70,462	40,929
Depreciation and amortization	11, 12	14,502	12,654
Adjustments in relation to impairment:		1,159	164
- Provision for doubtful receivables	8	1,294	206
- Provision for inventories	9	(135)	(42)
Adjustments in relation to provision:		28,753	11,927
- Provision for employee benefits	13	1,479	2,820
- Warranty provision expenses	13	27,274	9,107
Adjustments in relation to interest income and expenses:		25,032	15,085
- Interest income on time deposits	18	(174)	(220)
- Interest expense on borrowings	19	25,206	15,305
Adjustments in relation to unrealised foreign exchange gains and losses		3,968	1,304
Adjustments in relation to fair value gains and losses		(2,910)	(197)
- Fair value losses/(gains) on financial derivative instruments, net		(2,910)	(197)
Adjustments in relation to gains or losses on sales of property, plant and equipment		(42)	(8)
- Gain on sale of property, plant and equipment		(42)	(8)
Changes in net working capital		(375,205)	(30,219)
Change in trade receivables		(125,307)	33,552
Change in due from customers on contract works		(10,478)	(1,680)
Change in inventories		14,167	22,702
Change in trade payables		(186,981)	(55,533)
Other changes		(66,606)	(29,260)
- Changes in other operating assets		9,000	(14,111)
- Changes in other operating liabilities		(75,606)	(15,149)
Cash flows from operations		(267,595)	18,877
Payments in relation to employee benefits	13	(1,839)	(1,245)
Payments in relation to other provisions	13	(19,659)	(8,038)
Deductions/(payments) in relation to income tax		-	(1,287)
Other cash collections/(payments)		3,253	393
CASH FLOWS FROM INVESTING ACTIVITIES		(18,434)	(13,061)
Proceeds from sale of property, plant and equipment and intangible assets		256	182
- Proceeds from sale of property, plant and equipment		256	182
Cash outflows due to purchase of property, plant and equipment and intangible assets		(18,690)	(13,243)
- Purchase of property, plant and equipment	11	(1,756)	(1,661)
- Purchase of intangible assets	12	(16,934)	(11,582)
CASH FLOWS FROM FINANCING ACTIVITIES		269,543	(33,759)
Cash inflow due to borrowings		352,994	117,921
- Proceeds from bank borrowings		352,994	117,921
Cash outflow due to repayment of borrowings		(5,922)	(154,224)
- Repayments of borrowings		(5,922)	(154,224)
Dividends paid		(60,000)	-
Interest paid		(17,703)	2,324
Interest received		174	220
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		(34,731)	(38,120)
Currency translation difference on cash and cash equivalents		238	17
NET DECREASE IN CASH AND CASH EQUIVALENTS		(34,493)	(38,103)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	38,598	62,960
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	4,105	24,857

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

The registered addresses of the Company are as follows:

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

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

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

<u>Legal Name</u>	<u>Nature of operations</u>	<u>Country</u>	<u>Capital</u>	<u>Ownership (%)</u>
Otokar Europe SAS	Trade	France	Euro 100 thousand (TL 239 thousand)	100.00

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

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

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

	<u>31 March 2017</u>		<u>31 December 2016</u>	
	<u>Period end</u>	<u>Average</u>	<u>Period end</u>	<u>Average</u>
Total personnel	2,219	2,238	2,297	2,409

These consolidated financial statements at 31 March 2017 were authorized for issue and signed with the approval of the Internal Audit Committee by the Board of Directors of Otokar on 3 May 2017. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul A.Ş. (“BIST”) since 1995. As of 31 March 2017 27.45% of the shares are quoted on the BIST.

As of 31 March 2017, the principal shareholders and their respective shareholding percentages are as follows:	(%)
Koç Holding A.Ş.	44.68
Ünver Holding A.Ş.	24.81
Publicly traded	27.45
Other	3.06
	100.00

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

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

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

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

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

Functional and presentation currency

Functional and presentation currency of the Company is thousand TL.

In accordance with the CMB’s resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 31 March 2017 and 31 December 2016 have been restated by applying the relevant conversion factors through 31 December 2004 and carrying additions after 31 December 2004 at their nominal values.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

2.2 Group accounting

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

Subsidiaries

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

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

Disposal of a subsidiary

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

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

2.3 Accounting errors and changes in accounting estimates

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

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

2.5 Changes and comments in IAS and IFRS

The following standards and interpretations had no significant impact on the Group's Consolidated Financial Statements:

a) Standards, amendments and interpretations applicable as at 31 March 2017:

- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impact 4 standards:
 - IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
 - IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
 - IAS 19, 'Employee benefits' regarding discount rates.
 - IAS 34, 'Interim financial reporting' regarding disclosure of information.
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- Amendments to IAS 16 'Property, plant and equipment', and IAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

2.5 Changes and comments in IAS and IFRS (Continued)

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- Amendments to IAS 27, 'Separate financial statements' on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendment to IFRS 10 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

b) Standards, amendments and interpretations effective after 1 April 2017:

- Amendments to IAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments IAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.
- IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

2.5 Changes and comments in IAS and IFRS (Continued)

- Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- IFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:
 - IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
 - IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
 - IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.
- IFRIC 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

NOTE 3 - SEGMENT REPORTING

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

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 March 2017	31 December 2016
Banks		
- demand deposits	2,454	11,536
- time deposits	1,023	26,059
Cheques and notes receivable	529	918
Other	99	85
	4,105	38,598

As of 31 March 2017, TL 1,023 thousand of the total amount of time deposits amounting to TL 446 thousand is denominated in foreign currency and the annual effective interest rate is 0.15% and has a maturity of 3 days. The remaining annual effective interest rate of TL 577 thousand is 8.25% and has a maturity of 3 days.

As of 31 December 2016, TL 26,059 thousand of the total time deposits amounting to TL 17,479 thousand is denominated in foreign currency and the annual effective interest rate is 0.10% and has a maturity of 3 days. The remaining annual effective interest rate of TL 8,580 thousand is 8.25% and has a maturity of 3 days.

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

As of 31 March 2017, the Group has blocked deposits amounting to TL 0.7 thousand (31 December 2016: TL 0.8 thousand).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Land Systems LLC" with paid in capital of AED 50 thousand (TL 41 thousand), established in United Arab Emirates for the purpose of organizing export activities and increasing export sales. Since "Otokar Land Systems LLC" operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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NOTE 6 - BORROWINGS

31 March 2017	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL	3 April 2017	0.00-12.60	35,665
Denominated in EUR	10 April 2017	1.75	27,358
			63,023

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

Denominated in TL		12.60-14.65	6,234
			6,234

(*) Bearing fixed interest rate.

31 March 2017	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	15 August 2018- 1 March 2019	12.60-14.65	641,242
Denominated in EUR	28 September 2018	2.90	78,166
			719,408

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 599 days.

31 December 2016	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	2 January 2017	-	3
			3

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

Denominated in TL		12.60-14.65	4,178
Denominated in EUR		2.90	491
			4,669

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NOTE 6 - BORROWINGS (Continued)

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

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 632 days.

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

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value liabilities
31 March 2017:			
Forward transactions	248,376	03 April 2017- 13 April 2017	(291)
Short-term derivative financial instruments	248,376		(291)
Total derivative financial instruments	248,376		(291)
31 December 2016:			
Forward transactions	25,397	12 January 2017	52
Short-term derivative financial instruments	25,397		52
Total derivative financial instruments	25,397		52

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 March 2017	31 December 2016
Trade receivables, net	344,371	258,579
Notes receivables, net	165,504	129,552
	509,875	388,131
Less: provision for doubtful receivables	(30,199)	(28,910)
Short-term trade receivables	479,676	359,221
Trade receivables from related parties (Note 22)	35,823	29,437
Short-term trade receivables	515,499	388,658
Long-term trade receivables, net	-	-
Long-term notes receivable, net	6,389	9,174
Long-term trade receivables	6,389	9,174

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

As of 31 March 2017, trade receivables amounting to TL 39,083 thousand (31 December 2016: TL 451,647 thousand) were subject to factoring arrangement. According to this arrangement, the Group has transferred the credit risk in relation to this receivables against cash.

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

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armoured vehicle sales. As of 31 March 2017, the total trade receivable from dealers amounting to TL 119,560 thousand (31 December 2016: TL 79,884 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 119,019 thousand (31 December 2016: TL 134,631 thousand).

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

31 March 2017	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	230
Over 5 year past due	-
Total	230
Amount secured with guarantees	230

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

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

The movement of the provision for doubtful receivables for the periods ended 31 March 2017 and 31 March 2016 are as follows:

	2017	2016
As of 1 January	28,910	25,973
Collection	(5)	(546)
Currency translation difference	57	9
Increase during the period	1,237	197
As of 31 March	30,199	25,633

Trade payables

	31 March 2017	31 December 2016
Trade payables, net	207,624	389,799
Notes payables, net	338	329
Short-term other trade payables	207,962	390,128
Trade payables to related parties (Note 22)	6,202	11,017
Short-term trade payables	214,164	401,145

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

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NOTE 9 - INVENTORIES

	31 March 2017	31 December 2016
Raw material	179,309	182,574
Semi-finished goods	60,379	73,212
Finished goods	108,842	116,973
Merchandise goods	76,483	67,684
Goods in transit	55,396	54,133
Impairment for inventories (*)	(571)	(706)
	479,838	493,870

(*) TL 290 thousand of impairment is related to finished goods (31 December 2016: TL 100 thousand) and TL 281 thousand is related to merchandises (31 December 2016: TL 606 thousand). The impairment has been accounted for under cost of sales.

NOTE 10 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts is TL 256,308 thousand as of 31 March 2017 (31 December 2016: TL 245,830 thousand) after offsetting with short-term advances received.

As of 31 March 2017, the short-term advances received by the Group related with ongoing projects which amounts to TL 12,893 thousand was included under deferred revenues in the consolidated financial statements (31 December 2016: TL 32,407 thousand).

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

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

	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	31 March 2017
Cost:						
Land	37,457	-	-	-	-	37,457
Land improvements	11,970	-	-	-	-	11,970
Buildings	60,633	-	-	-	-	60,633
Machinery and equipment	106,176	305	32	-	-	106,513
Motor vehicles	9,613	277	-	(281)	-	9,609
Furniture and fixtures	33,986	721	10	-	-	34,717
Leasehold improvements	2,116	15	-	-	-	2,131
Construction in process	696	396	-	-	-	1,092
	262,647	1,714	42	(281)	-	264,122

Accumulated depreciation:

Land improvements	7,479	163	-	-	-	7,642
Buildings	37,501	684	-	-	-	38,185
Machinery and equipment	86,576	1,222	16	-	-	87,814
Motor vehicles	5,633	166	-	(67)	-	5,732
Furniture and fixtures	18,839	983	8	-	-	19,830
Leasehold improvements	1,517	79	-	-	-	1,596
	157,545	3,297	24	(67)	-	160,799
Net book value	105,102			(214)	-	103,323

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 March 2016
Cost:						
Land	37,457	-	-	-	-	37,457
Land improvements	11,953	-	-	-	-	11,953
Buildings	60,540	-	-	-	-	60,540
Machinery and equipment	99,678	228	5	-	10	99,921
Motor vehicles	8,428	525	-	(143)	-	8,810
Furniture and fixtures	28,601	324	1	-	-	28,926
Leasehold improvements	2,099	4	-	(96)	-	2,007
Construction in process	964	574	-	-	(10)	1,528
	249,720	1,655	6	(239)	-	251,142

Accumulated depreciation:

Land improvements	6,826	165	-	-	-	6,991
Buildings	34,713	708	-	-	-	35,421
Machinery and equipment	81,637	1,270	2	-	-	82,909
Motor vehicles	5,147	160	-	(11)	-	5,296
Furniture and fixtures	15,938	632	1	-	-	16,571
Leasehold improvements	1,325	85	-	(54)	-	1,356
	145,586	3,020	3	(65)	-	148,544
Net book value	104,134			(174)	-	102,598

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	31 March 2017	31 March 2016
Research and development expenses	10,653	9,144
Cost of goods sold	954	1,298
Costs related to uncompleted contracts	1,047	780
Development projects in process	478	469
Depreciation on outstanding inventories	633	198
General administrative expenses	393	445
Selling and marketing expenses	320	317
Currency translation differences	24	3
	14,502	12,654

NOTE 12 - INTANGIBLE ASSETS

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

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

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

NOTE 12 - INTANGIBLE ASSETS (Continued)

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 March 2016
Cost:						
Other intangible assets	16,232	566	-	-	-	16,798
Development costs	242,620	-	-	-	-	242,620
Developments projects in progress	31,224	11,015	-	-	-	42,239
	290,076	11,581	-	-	-	301,657
Accumulated amortization:						
Other intangible assets	11,973	487	-	-	-	12,460
Development costs	122,683	9,144	-	-	-	131,827
	134,656	9,631	-	-	-	144,287
Net book value	155,420					157,370

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 March 2017	31 December 2016
Provision for other costs (*)	366,915	340,871
Warranty provision	38,700	31,085
Short-term provisions for employee benefits	9,753	8,491
Provision for license costs	619	1,091
Provision for litigation risk	100	100
Other	11,891	5,506
	427,978	387,144

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

Long-term provisions

	31 March 2017	31 December 2016
Warranty provision	10,300	10,300
	10,300	10,300

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

Warranty provision

The Group 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:

Movements of provision for warranty expenses during the periods ended 31 March 2017 and 2016 are as follows:

	2017	2016
1 January	41,385	35,831
Increase during the year	27,274	9,107
Payments	(19,659)	(8,038)
31 March	49,000	36,900

Provisions for employee benefits

	31 March 2017	31 December 2016
Provision for employment termination benefits	29,646	28,088
Provision for unused vacation	9,753	8,491
Total	39,399	36,579

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TL 4,426 for each year of service as of 31 March 2017 (31 December 2016 - TL 4,297).

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

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

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

	31 March 2017	31 December 2016
Net discount rate (%)	4.50	4.50
Turnover rate to estimate the probability of retirement (%)	97.77	97.50

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

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

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

	2017	2016
1 January	28,088	22,321
Interest expense	635	505
Charge for the period	844	2,315
Remeasurement differences	1,918	226
Payments	(1,839)	(1,245)
31 March	29,646	24,122

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2017	2016
1 January	8,491	6,652
Charge for the period net	1,262	1,272
31 March	9,753	7,924

Commitments and contingencies

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

	31 March 2017	31 December 2016
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,518,526	1,614,606
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	1,518,526	1,614,606

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

	31 March 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	268,285	976,180	285,635	1,005,208
EUR	111,729	436,670	112,796	418,461
TL	104,440	104,440	189,755	189,755
GBP	273	1,236	274	1,182
Total		1,518,526		1,614,606

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

	31 March 2017	31 December 2016
Guarantee letters given		
Under secretariat of Ministry of Defence	1,130,535	1,092,184
Other	387,991	522,422
Total	1,518,526	1,614,606

Guarantee letters

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

	31 March 2017	31 December 2016
Bank letters of guarantee (*)	1,518,526	1,614,606
Total	1,518,526	1,614,606

(*) Bank letters of guarantee amounting to TL905,445 thousand are given to Secretariat of Ministry of Defence for Altay Project (31 December 2016: TL 875,733 thousand).

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

	31 March 2017	31 December 2016
Bank letters of guarantee (**)	587,299	551,490
Guarantee notes	16,699	15,898
Mortgages received	20	20
Total	604,018	567,408

(**) Bank letters of guarantee amounting to TL 344,551 thousand are obtained from the sub-contractors for Altay Project (31 December 2016: TL 317,195 thousand).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2010 was concluded in favour of the Group and TL 2,924 thousand was refunded to the Group. The same case for 2011-2012-2013 and 2014 is still in progress at appeal phase. The Group has appealed for the same case of 2014 and it is still in progress. Total amount of cases at the appeal phase relating to years 2011-2012-2013 and 2014 amount to TL 36,169 thousand, the amount of the legal case for 2015 is TL 4,557 thousand.

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

a) Prepaid expenses:

	31 March 2017	31 December 2016
Advances given	182,585	171,436
Prepaid expenses	8,065	5,330
Total	190,650	176,766

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

b) Other current assets:

	31 March 2017	31 December 2016
Value added tax receivables	81,867	105,448
Other	1,387	690
Total	83,254	106,138

c) Deferred revenues:

Deferred revenues - short term	31 March 2017	31 December 2016
Advances received	71,662	175,322
Deferred maintenance revenues (*)	24,583	25,302
Total	96,245	200,624

Deferred revenues - long term	31 March 2017	31 December 2016
Deferred maintenance revenues (*)	3,527	7,754
Total	3,527	7,754

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

d) Employee benefits obligation:

	31 March 2017	31 December 2016
Social security payables	6,353	6,324
Payables to employees	4,658	10,365
Taxes and funds payable	1,682	4,751
Total	12,693	21,440

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

e) Other current liabilities:

	31 March 2017	31 December 2016
Deferred special consumption tax	205	9,273
Tax and fund payable	641	1,403
Payables to shareholders	16,707	-
Other	1,492	524
Total	19,045	11,200

NOTE 15 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 March 2017	1 January - 31 March 2016
Domestic Sales	453,516	245,174
Export Sales	115,627	116,531
Gross Sales	569,143	361,705
Less: sales discounts and returns	(2,724)	(2,873)
Net sales	566,419	358,832

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

	1 January - 31 March 2017	1 January - 31 March 2016
Commercial vehicle	136,739	114,426
Armoured vehicle	334,405	159,704
Revenue of uncompleted contracts	40,891	45,078
Other (*)	54,384	39,624
Total	566,419	358,832

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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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NOTE 15 - REVENUE AND COST OF SALES (Continued)

Cost of sales

	1 January - 31 March 2017	1 January - 31 March 2016
Cost of finished goods sold	(403,219)	(249,690)
Cost of merchandise goods sold	(24,188)	(17,337)
Total	(427,407)	(267,027)

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

	1 January - 31 March 2017	1 January - 31 March 2016
Marketing expenses	(59,138)	(45,890)
General administrative expenses	(18,283)	(15,006)
Research and development expenses	(10,921)	(9,448)
Total	(88,342)	(70,344)

NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 March 2017	1 January - 31 March 2016
Other operating income		
Foreign exchange gains on operating activities	104,112	52,124
Gain on forward transactions	8,573	2,609
Revenue from charge of due date receivables	4,784	2,615
Gain on incentives	539	514
Other	3,584	2,449
Total	121,592	60,311
Other operating expenses		
Foreign exchange loss on operating activities	(98,872)	(52,275)
Loss on forward transactions	(5,662)	(2,411)
Expense on provision for uncollectible receivables	(1,237)	(197)
Other	(232)	-
Total	(106,003)	(54,883)

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NOTE 18 - FINANCIAL INCOME

	1 January - 31 March 2017	1 January - 31 March 2016
Interest income from time deposits	174	220
Foreign exchange gains on deposits	2,999	1,654
Total	3,173	1,874

NOTE 19 - FINANCIAL EXPENSES

	1 January - 31 March 2017	1 January - 31 March 2016
Interest expense on bank borrowings	(25,206)	(15,305)
Foreign exchange losses on deposits	(3,114)	(2,416)
Foreign exchange losses on bank borrowings	(3,968)	(1,304)
Other	(38)	(29)
Total	(32,326)	(19,054)

NOTE 20 - TAX ASSETS AND LIABILITIES

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

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

	31 March 2017	31 December 2016
Income tax payable	799	572
Less-prepaid tax (-)	(799)	(572)
Income tax payable	-	-

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

	1 January - 31 March 2017	1 January - 31 March 2016
Current tax charge	-	807
Deferred tax income		
Charged to profit for the period	-	(2,357)
Charged to other comprehensive income	384	45
Total	384	(1,505)

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

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

	Cumulative temporary differences		Deferred tax assets/(liability)	
	31 March 2017	31 December 2016	31 March 2017	31 December 2016
R&D expenses	38,716	66,991	7,743	13,398
Property, plant and equipment	(9,318)	(10,263)	1,618	1,429
Intangible assets	(41,852)	(44,360)	(8,370)	(8,872)
Deferred financial expense	(1,510)	(1,278)	(302)	(256)
Inventories	497	710	99	142
Warranty provision	49,000	31,085	9,800	6,217
Provision for employment termination benefits	29,646	28,088	5,929	5,618
Deferred financial income	2,079	3,291	416	658
Provisions for doubtful receivables	2,750	2,699	550	540
Unused vacation liabilities	9,753	8,491	1,951	1,698
Other provisions	11,371	2,728	2,274	546
Deferred maintenance income	28,110	33,056	5,622	6,611
Due from customers on contract works	65,974	50,621	13,195	10,124
Other	(11,438)	3	(2,288)	-
Deferred tax assets, net			38,237	37,853

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

	1 January - 31 March 2017	1 January - 31 March 2016
1 January	37,853	37,314
Deferred tax income:		
Charged to profit for the period	-	(2,357)
Charged to other comprehensive income	384	45
31 March	38,237	35,002

NOTE 21 - EARNINGS PER SHARE

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 21 - EARNINGS PER SHARE (Continued)

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

	31 March 2017	31 March 2016
Net income attributable to shareholders (TL)	37,148	8,167
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piaster)	0.155	0.034

NOTE 22 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances at 31 March 2017 and 31 December 2016:

Due from related parties	31 March 2017	31 December 2016
Ram Dış Ticaret A.Ş. (1) (*)	35,751	29,335
Ford Otomotiv Sanayi A.Ş. (2)	72	67
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	-	35
Total	35,823	29,437

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

Due to related parties	31 March 2017	31 December 2016
Ram Dış Ticaret A.Ş. (1)	1,786	1,245
Ram Sigorta Aracılık Hz. A.Ş. (1)	1,441	58
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	857	1,965
Opet Fuchs Madeni Yağ A.Ş. (1)	472	614
Setur Servis Turistik A.Ş. (1)	457	337
Koç Holding A.Ş. (2)	445	4,609
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	242	256
Opet Petrolcülük A.Ş. (1)	162	118
Ford Otomotiv Sanayi A.Ş. (2)	141	90
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	140	409
Other (1)	59	1,316
Total	6,202	11,017

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

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

Product sales and service revenue	1 January - 31 March 2017	1 January - 31 March 2016
Ram Dış Ticaret A.Ş. (1) (*)	58,384	81,047
Ford Otomotiv Sanayi A.Ş (2)	61	-
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	1	-
Aygaz A.Ş. (1)	-	3
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	-	316
Total	58,446	81,366

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

Purchase of property, plant and equipment	1 January - 31 March 2017	1 January - 31 March 2016
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	529	647
Arçelik A.Ş. (1)	1	1
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	-	37
Total	530	685

Inventories purchased	1 January - 31 March 2017	1 January - 31 March 2016
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	4,081	3,549
Arçelik A.Ş. (1)	3,054	1
Ram Dış Ticaret A.Ş. (1)	931	500
Opet Petrolcülük A.Ş.(1)	740	424
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	685	443
Opet Fuchs Madeni Yağ A.Ş. (1)	514	406
Ford Otomotiv Sanayi A.Ş. (2)	127	-
Koçtaş Yapı Marketleri A.Ş.(1)	7	8
Total	10,139	5,331

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

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January – 31 March 2017	1 January – 31 March 2016
Ram Dış Ticaret A.Ş. (1)	4,270	9,058
Setur Servis Turistik A.Ş. (1)	1,752	1,246
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	1,190	585
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	1,139	1,148
Koç Holding A.Ş. (2) (*)	974	2,716
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	674	598
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	349	-
Koç Topluluğu Spor Kulübü Derneği İkt. İşl. (1)	225	15
Koç Üniversitesi (1)	79	16
Divan Turizm İşletmeleri A.Ş. (1)	20	50
Yapı Kredi Yatırım Menkul Değerler A.Ş.(1)	19	-
Koç Holding Emeklilik Vakfı (1)	4	-
Vehbi Koç Vakfı Amerikan Hastanesi (1)	1	3
Tüpraş-Türkiye Petrol Rafinerileri A.Ş. (1)	-	4
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	-	1,135
Total	10,696	16,574

(*) 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, invoice to Company in frame of “11- Intercompany Services in numbered 1 General Communiqué about Concealed Gain Distribution by Transfer Pricing.

(**) It includes paid and accrued premium as of 31 March 2017 and 31 March 2016 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 March 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	4	14
- Time deposits	1,023	20,761

Total **1,027** **20,775**

Checks and notes in collection	31 March 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)	2,782	6,977

Total **2,782** **6,977**

Borrowings	31 March 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)	407	-

Total **407** **-**

(1) Related parties of parent company

(2) Shareholder

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 31 March 2017 and 2016, financial income and expense with related parties:

	1 January - 31 March 2017	1 January - 31 March 2016
Foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	6,400	123
Yapı Kredi Faktoring A.Ş. (1)	-	197
Other (1)	19	25
Total	6,419	345

	1 January - 31 March 2017	1 January - 31 March 2016
Foreign exchange loss		
Yapı Kredi Faktoring A.Ş. (1)	6,469	-
Ram Dış Ticaret A.Ş. (1)	3,246	497
Other (1)	2,118	56
Total	11,833	553

For the periods ended 31 March 2017 and 2016, financial income and expense with related parties:

	1 January - 31 March 2017	1 January - 31 March 2016
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	98	89
Total	98	89

	1 January - 31 March 2017	1 January - 31 March 2016
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	198	1,092
Total	198	1,092

(1) Related parties of parent company

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 31 March 2017 and 2016, financial income and expense with related parties:

	1 January - 31 March 2017	1 January - 31 March 2016
Foreign exchange gains		
Yapı ve Kredi Bankası A.Ş. (1)	1,215	124
Total	1,215	124
	1 January - 31 March 2017	1 January - 31 March 2016
Foreign exchange loss		
Yapı ve Kredi Bankası A.Ş. (1)	1,806	1,802
Total	1,806	1.802

(1) Related parties of parent company

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the period ended 31 March 2017 amounted to TL 1,753 thousand (31 March 2016: TL 1,581 thousand). Executives are composed of board of directors members, general manager and assistants of general manager.

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

a) Foreign currency risk and related sensitivity analysis

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

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

31 March 2017	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	662,475	80,137	94,885	11
2a. Monetary financial assets (including cash, bank accounts)	183,136	48,470	1,733	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	-	-	-	-
4. Current assets (1+2+3)	845,611	128,607	96,618	11
5. Trade receivables	5,859	-	1,499	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	106	-	27	-
8. Non-current assets (5+6+7)	5,965	-	1,526	-
9. Total assets (4+8)	851,576	128,607	98,144	11
10. Trade payables	(39,471)	(3,587)	(6,732)	(24)
11. Financial liabilities	(27,323)	-	(6,991)	-
12a. Monetary other liabilities	(428,988)	(106,541)	(10,542)	(28)
12b. Non-monetary other liabilities	(24,583)	-	(6,290)	-
13. Current liabilities (10+11+12)	(520,365)	(110,128)	(30,555)	(52)
14. Trade payables	-	-	-	-
15. Financial liabilities	(78,166)	-	(20,000)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(3,527)	-	(903)	-
17. Non-current liabilities (14+15+16)	(81,693)	-	(20,903)	-
18. Total liabilities (13+17)	(602,058)	(110,128)	(51,458)	(52)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(248,376)	(21,000)	(44,000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(248,376)	(21,000)	(44,000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	1,142	(2,521)	2,686	(41)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	277,522	18,479	53,852	(41)
22. Total fair value of financial instruments used for foreign currency hedging	(248,376)	(21,000)	(44,000)	-
23. Export (as of 31 March 2017)	113,979	18,210	12,157	12
24. Import (as of 31 March 2017)	125,713	19,830	17,008	468

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

31 December 2016	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	470,904	76,165	53,968	613
2a. Monetary financial assets (including cash, bank accounts)	189,090	39,445	13,552	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	2	-	-	-
4. Current assets (1+2+3)	659,996	115,610	67,520	613
5. Trade receivables	7,558	-	2,037	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	74	3	17	-
8. Non-current assets (5+6+7)	7,632	3	2,054	-
9. Total assets (4+8)	667,628	115,613	69,574	613
10. Trade payables	(25,305)	(2,841)	(4,126)	-
11. Financial liabilities	(491)	-	(132)	-
12a. Monetary other liabilities	(500,458)	(108,505)	(31,937)	(29)
12b. Non-monetary other liabilities	(25,302)	-	(6,820)	-
13. Current liabilities (10+11+12)	(551,556)	(111,346)	(43,015)	(29)
14. Trade payables	-	-	-	-
15. Financial liabilities	(74,198)	-	(20,000)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(7,754)	-	(2,090)	-
17. Non-current liabilities (14+15+16)	(81,952)	-	(22,090)	-
18. Total liabilities (13+17)	(633,508)	(111,346)	(65,105)	(29)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(25,397)	(3,000)	(4,000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(25,397)	(3,000)	(4,000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	8,723	1,267	469	584
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	67,100	4,264	13,362	584
22. Total fair value of financial instruments used for foreign currency hedging	(25,397)	(3,000)	(4,000)	-
23. Export (as of 31 March 2016)	115,407	28,870	9,576	5
24. Import (as of 31 March 2016)	108,850	19,826	14,384	938

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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

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

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

31 March 2017	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	(917)	917
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(917)	917
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	1,050	(1,050)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	1,050	(1,050)
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(19)	19
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(19)	19
Total (3+6+9)	114	(114)
31 December 2016	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	446	(446)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	446	(446)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	174	(174)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	174	(174)
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	252	(252)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	252	(252)
Total (3+6+9)	872	(872)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2017

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NOTE 24 - FINANCIAL INSTRUMENTS

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

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

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

31 March 2017

Liabilities	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	291	-	291

31 December 2016

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

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

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

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

None.

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

None.

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